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# ECONOMIC DIGEST



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# ECONOMIC DIGEST

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## Greater Productivity Means—What?

BY S. MOOS (LECTURER IN ECONOMICS, DURHAM COLLEGES)

*What do we mean by productivity? And if we know that, how do we prove to the workers' satisfaction that greater efficiency need not increase the risk of unemployment?*

NOT sufficient facts have been systematically collected to answer such questions as, "In what circumstances will a firm or a group of workers increase productivity?" "At what point of output will they achieve the best result?" and, indeed, "What is meant by the best result?"

The first decision to be made is: are we aiming at the highest possible output or the lowest possible cost? It is usually not possible to do both. High output often involves high costs because it means using all resources—even the inefficient high cost resources. It also means that the firms themselves must be willing to increase output even if it means increasing cost.

Supposing, however, that some decision about this has been reached, any productivity drive to implement it at once comes up against the lack of comparable production situations.

The last fifteen years present a weird mixture of long-term and short-term disturbances. Old commodities have lost in importance or have disappeared; new commodities have become prominent. How is it possible to compare efficiency in the production of jet-aircraft with anything that went before? Moreover, how can statistics allow for the great change in quality in input and output in the four great periods: before the second world war, the second world war, the transition from war to peace, and the period starting with the Korean war?

Is there a single normal year during the whole period? Overvaluation, devaluation, fuel crisis, convertibility crisis, mobilisation, demobilisation, unemployment, full employment, overfull employment, and so forth: exciting for the journalist, deadly for the statistician And then there was the fear which haunted the larger part of industry during the whole period and which led to a restrictionism which is now a major obstacle to increased production.

### *Marginal Method*

So the main problems facing productivity drives are lack of precision; lack of theory; lack of a basis for comparison, and finally widespread passive resistance. What solutions can be offered? First of all, how far can economic theory be applied? Businessmen could be more cooperative here. Modern methods of cost-accounting are practised by a

*From Talk in the Third Programme, The Listener, London, May 22, 1952*

minority of progressive firms only, and without proper cost-accounting it is not possible to answer such important questions as: " If additional units of man-hours or capital equipment are employed, what is the additional cost? What is the additional output? What is the additional revenue from this output?

Some factors of production cannot easily be tested with this marginal procedure. For instance, factory buildings, generators and so on cannot be added in small increments. But in an expanding industry or in an expanding economy these complications should not weigh too heavily. The main point is to obtain tools with which to ascertain the best possible output or the highest possible profit—whatever the aim. And scientific standardised cost-accounting and the marginal analysis are such tools. Standardisation in accounting would also help in measuring changes in productivity.

It has become fashionable to compare productivity between countries, as for instance the United States and the United Kingdom, or between two periods of time, say 1938 and 1948. Actually these figures are based on so many assumptions, and are hedged about with so many qualifications, that hardly any definite conclusions can be drawn.

Unfortunately, when data of this kind emerge from the jungle of assumptions and qualifications into the tidy world of tables, they tend to shed all traces of their humble origin and frail health, and overpower both layman and expert.

To take as an example a furniture firm which closes down all its branches and concentrates production in a newly built and newly equipped large-scale factory. The firm uses this opportunity to scrap the old equipment and to dismiss all workers who have not reached a high degree of efficiency. As a result, they can show a great increase in productivity per man. But this may misrepresent reality. It is possible that as production now takes place at one spot only, costs of transport and distribution will increase. The dismissed workers may retire, or become unemployed, or change over to some non-manufacturing job. In fact inefficiency has not been eliminated but shifted. Neither the indices of production nor the reports on productivity take these secondary effects into account.

A number of these secondary effects are features of American efficiency. It is worth recalling that before the outbreak of the second world war output per operative in American manufacturing industry was more than twice that of this country, but American real income per head was only slightly above that in Britain. That is, if the productivity per man hour in American manufacture was taken as a measure of the nation's productive effort, an entirely wrong impression had been created. To measure the effect of a productivity drive accurately it would be necessary to know how the increase in efficiency was achieved. Has new capital equipment been installed or is the old equipment used more efficiently? Has the quality and variety of products been lowered? Or has management or the use of labour improved? The theoretical and statistical problems that have to be faced depend on which of these factors brought about the increase.

*What is O.P.M.?*

There is another important point. Productivity is often measured by

"O.P.M."—output per man. It sounds simple; but what does it mean?

What is meant by output? If it consisted only of finished goods, estimates would be relatively reliable. But an increase in output may have been achieved by emptying the pipeline of stocks and semi-finished components, by neglecting maintenance and repair work, or by greater wear and tear of men and machines. More reliable data are needed on these elusive items if correct estimates are wanted.

Secondly, what is meant by man? Generally it means woman as well. At one time—during the war, for instance—the labour force may contain a higher proportion of unskilled or half-time or female labour, of very young and very old workers, than at another time. In such a case the total number of employed might remain stable, but productivity would fall. The index would, wrongly, suggest that workers' effort has declined while actually the type of labour has changed.

The concept of man-hours is complicated. The Yearbook of the National Maritime Board needs some forty pages to interpret these terms. One of their regulations states that no hour shall rank as an extra hour more than once! Especially in times of scarcities in certain skills, in materials and power, man-hours may not be fully used owing to hold-ups in the flow of work—to bottlenecks. The standard working week may be distorted by idle working time or short time, or, in other circumstances, by overtime.

Even with better information the concept of output per man and per man-hour will remain statistically vulnerable and limited, as it deals only with one aspect of productivity. It is equally important to know to what degree raw materials or fuel or factory space have been wasted and how efficiently have the capital and power resources been employed. Even then it will only be known whether efficiency per horse-power or per unit of raw materials and so forth has increased. It still will not be known whether resources have been used best for the ends which are considered of prime importance at the moment. And in times of scarcity, producing the wrong thing efficiently might prove as bad a waste of precious resources as producing the right thing inefficiently.

### *Carrots and Sticks*

Lastly, the question of incentives. But how much is known about incentives as a method of boosting production and breaking down restrictionism? Is it known at what point and with what kind of people a change in income encourages effort and at what point the opposite effect is produced? One man reacts to the carrot of higher income, another to the stick of a lower income, and the same man may react differently at different times according to a change in needs or in the opportunity to satisfy his needs; what research has to find is the right size of the stick and the right size of the carrot.

If incentives for workers such as payment-by-result schemes and bonus systems are scientifically worked out, they can in favourable circumstances greatly contribute to higher output. It should not be forgotten, however, that the proportion of workers paid by result has not markedly increased over the last half century. Today not more than three out of ten workers are working on this basis.

Indirect incentives can be more generally applied. I am thinking of the search for new human relations within the factory. Growing attention has been paid to this field ever since the first world war. I believe that some of these experiments succeeded not because of the special system employed, but owing to the spirit which inspired the schemes and to the enthusiasm of the pioneering managers. They were, in fact, isolated successes due to special circumstances. The same schemes introduced as a result of legal obligations or of outside pressure, would probably fail. It might prove fatal to speed up artificially a development which has its own rate of growth.

The fundamental problem, which has to be faced if indirect incentives are to be successful, is how to give workers a feeling of pride and a sense of security. In present circumstances this may be more important than the question of ownership.

The prosperity and full employment of war and post-war provided an almost permanent sellers' market and rewards for the most inefficient. And now a deficiency of supplies has been added to make matters worse. In some firms workers are reluctant to work more efficiently because they may exhaust the materials too quickly, in other firms they dread the exhaustion of markets. Both causes are leading to the same result: a go-slow atmosphere. I am doubtful how far productivity drives—even if they were operated on a basis of more adequate statistics—could overcome this spirit of restrictionism. It partly depends on how far bottlenecks can be reduced where they do most damage. Essential industries would probably stop the hoarding of men and materials if they were assured of a smooth flow of all the factors of production.

It would prove more difficult to eliminate the deep-rooted fear of unemployment and the restrictive practices arising from it. But two things could be done: the general theory of stable employment as outlined in the Government White Paper of 1944—or an improved up-to-date version of it—could be more popularised.

Workers think in terms of risk just as much as employers. Can it be proved to their satisfaction that greater efficiency need not increase the risk of unemployment, and may often lessen it? Is it possible to suggest alternative work in case of unemployment in a given factory, industry or region?

Production drives conducted on such lines might triumph over restrictionism.

*Footnote*: See also the "For Reference" feature on later pages of this issue, where an article by A. R. Smith on this subject is described.

## NEW SHAPE OF E.P.U.

The scale of gold payments by debtor nations is altered so that more gold is payable in the early stages of the quotas, but overall proportions (gold 40%, credit 60%) remain unchanged. A guarantee fund of $100 million contributed by members will be set up if the Union's convertible assets fall below $100 million.—*Chancellor of the Exchequer, House of Commons, London, June* 12, 1952.

*ECONOMIC COMMISSION FOR EUROPE*

# Housing in Europe Since 1945

*Small firms, out-of-date equipment, restrictive practices—these are the obstacles to a better building industry*

THE SHORTAGE of dwellings which Europe faced after the Second World War was only partly due to war destruction and damage. The loss of potential output during the war was more important (except in Western Germany, Greece and Poland). Even in countries such as Denmark, Sweden and Switzerland, the increment of new housing during the war was smaller than the increase in the number of families, particularly in the urban areas. In most countries, the level of new building had been low even before 1939, and many obsolete buildings had not been replaced.

The preliminary work of making damaged dwellings habitable was completed in most countries by the end of 1947. Inevitably, the State had everywhere been the main agent in this work by providing finance, by determining priorities and by allocating scarce materials.

This was an inescapable consequence of the freezing of rents earlier, at a time when other prices and incomes had been allowed to rise. This policy, pursued in the interests of social stability, resulted in the proportion of income spent on rent dropping heavily; in Italy, the proportion in 1947 was only one-twentieth that of 1938; in the United Kingdom, the proportion dropped to two-thirds; in France, to one-sixth.

While the ratio of rents to wages had fallen in this dramatic way, building costs had risen along with wages, and the rent of old houses was only a small fraction of that at which an unassisted builder could provide a new dwelling of comparable quality.

It is a fair presumption that, without rent control, war-time wage inflation would have been far greater even than it was. In this sense, therefore, post-war wages were adjusted to the existing low level of rents. If "homes for heroes" were to be built at all, as well as luxury houses, offices and places of entertainment, for which there was a demand which needed no artificial stimulus, it would only be as a result of Government intervention.

### *State Housing Assistance*

Building has been subsidised either by outright capital grants, or by loans on long term and at low rates of interest. In some countries private building has been kept down.

*Scandinavia*: Governments have given assistance mainly by mortgage loans at low rates of interest. Some interest-free loans were introduced in Sweden in 1942. Such loans are open to both builders of houses for letting and those of houses for owner-occupation. Municipalities

*From Economic Bulletin for Europe, Geneva, April 1952, and Methods and Techniques of Financing Housing in Europe, Geneva, March, 1952*

and co-operatives are favoured as against private builders, but even the latter can mortgage 85 to 90 per cent of initial cost. Special subsidies are also granted depending on the size of the occupying family.

*W. Germany*: The Government, under a Housing Law of 1950, can grant interest-free loans, and in some cases both builders and owner-occupiers are entitled to rebates of income tax.

*Great Britain*: Local authorities building houses for letting are granted loans by Goverment agencies, at a rate of interest lower (until recently) than the gilt-edged long-term yield. In addition, annual subsidies are given which were originally supposed to cover nearly half the loan charges and maintenance costs at 1945 prices; by 1950, however, costs had risen so swiftly that the subsidies covered only one-third. Subsidies are being raised, but appear to be fighting a losing battle with rising interest rates and costs.

*Holland*: Two methods have been used since 1945. First, annual subsidies were paid to cover part of maintenance and loan charges—spread, in the case of municipalities, over fifty years. In 1950 these subsidies were reduced to a lump-sum payment to private builders, and the basis of payments to municipalities was changed. Reduced subsidies were given in return for larger quotas of authorisations to build. This system has been successful in reducing costs.

*Switzerland*: Lump-sum subsidies is the rule. At first both the federal and canton governments shared the payments, but since 1949 the federal contribution has been abolished. A number of cantons still subsidise builders where housing is very short. In 1945 the subsidy might reach 30 per cent of total building cost for private builders, 45 per cent of total for communes or co-operatives.

*Belgium*: Lump-sum subsidies are paid to owner-occupiers, or purchasers from approved societies. The subsidy is limited to houses below a certain size, and they must then be occupied by the beneficiary for ten years. The State also guarantees part of the mortgage loans given by approved societies. Direct loans are made by the State to coal-miners and to persons with large families, at low rates of interest.

*Italy*: Subsidies, equal to half the building costs, are granted to semi-public organisations building workers' dwellings. Owners of war-destroyed property have been granted annual subsidies payable over thirty years. The Fanfani Plan, which is to run for seven years from 1949, is a method of financing housing by general contributions; employees give .6 per cent of their earnings, employers 1.2 per cent, and the State augments these funds by some 60 per cent of the total collected. Some 76,000 houses have been or are being built under this plan.

*France*: Emphasis has been placed on making house property attractive to investors. Rents have been raised at six-monthly intervals since 1948. Persons with low incomes are then assisted to meet these increases. Societies building cheap-rent housing are assisted by

cheap loans. Private individuals can now receive subsidies from the State for a period of twenty years, if they can raise 20 per cent of the building costs, and assistance is given in raising the remainder by cheap loans. New dwellings are exempted from land tax, and certain fees are remitted or reduced.

*" Old-Fashioned Industry " . . .*

The house-building industry is in nearly all countries an old-fashioned industry more akin to agriculture than to most manufacturing industries. Before the war, it contained a large number of firms employing a handful of men each; bankruptcy rates were high; work was highly seasonal; use of manpower was wasteful, and productivity was a matter of individual effort; efforts of craftsmen were restrained by rigid rules of working.

The position now is not greatly changed. Firms are still small and under-capitalised; methods have not changed from a generation or two ago; restrictive practices remain. Indeed, the position may be worse—productivity per man is even lower, particularly in countries with full employment. As against this, there has been some indirect gain through a decline in the seasonal character of work. Builders now have to make do with a smaller staff and have to spread work more evenly over the year.

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# Japan's Sewing Machine Industry

EXPORTS of sewing machines have made remarkable strides since the reopening of private export and import trade with Japan in September, 1947. Japan exported a monthly average of 2,800 sewing machines in 1948, 7,200 in 1949, 35,000 in 1950, and 50,000 in 1951. The export of 427,935 sewing machines in 1950, amounting to $9,500,000 in value, was more than half of the total production (770,000 sewing machines) of that year. This was thirteen per cent of the total value of the exports of machinery from Japan in 1950. The sewing machine industry thus became an important export industry.

The number of sewing machines exported from Japan each year between 1935 and 1950 was as follows:

| | | | |
|---|---|---|---|
| 1935— | 0 | 1943— | 3,698 |
| 1936— | 3,720 | 1944— | 697 |
| 1937— | 9,240 | 1945— | 0 |
| 1938— | 6,069 | 1946— | 600 |
| 1939— | 10,810 | 1947— | 2,010 |
| 1940— | 10,201 | 1948— | 33,533 |
| 1941— | 8,402 | 1949— | 86,912 |
| 1942— | 5,232 | 1950— | 427,935 |

Japanese sewing machines are exported chiefly to the United States. Other export markets are scattered all over the world except in Europe. The percentage of sewing machines exported to various export markets in 1950 was as follows:

| | |
|---|---|
| United States of America | 64.5% |
| South America ... ... | 9.0% |
| South-East Asia ... | 7.8% |
| Far East ... ... ... | 7.5% |
| Central America ... ... | 4.6% |
| Near East ... ... ... | 2.1% |
| Africa ... ... ... ... | 1.7% |
| Others ... ... ... ... | 2.8% |

*From Fuji Bank Bulletin, Tokyo, Feb., 1952*

# Inflation Accounting Not Perfect Yet

*The keeping of accounts on the basis of replacement or current costs, and the recording of changes in purchasing power of money in the mechanics of book-keeping have been occupying the accountancy institutions a great deal of late. Here the Chartered Accountants strike a warning note.*

An important feature of the historical cost basis of preparing annual accounts is that it reduces to a minimum the extent to which the accounts can be affected by the personal opinions of those responsible for them. For example, the cost of a fixed asset is known so that in calculating depreciation provisions based on that cost the only respects in which estimates enter into the matter are in relation to the probable useful life of the asset and its realisable value, if any, at the end of its life. The significance of accounts prepared on the basis of historical cost is, however, subject to limitations, not the least of which is that the monetary unit in which accounts are prepared is not a stable unit of measurement. During a period of rising prices a decrease occurs in the purchasing power of cash and bank balances and assets such as debts and investments carrying fixed rates of interest or dividend, but this decrease is not treated as a reduction of business profits; nor are business profits shown as being increased by the benefit derived from the fall in the burden, expressed in terms of purchasing power, of loans and other liabilities incurred before the rise in prices but payable in currency of diminished purchasing power. Moreover, the monetary cost at which stock-in-trade is charged against revenue is not sufficient, during a period of rising prices, to meet the cost of replacing the same quantity of stock; and similarly depreciation charges based on the monetary cost of fixed assets will not provide the amount required to meet the cost of replacement of those assets at higher prices if and when they need to be replaced.

Monetary profits do not therefore necessarily reflect an increase or decrease in wealth in terms of purchasing power; the Council cannot emphasise this too strongly.

The results shown by historical accounts are not necessarily suitable for purposes such as price fixing, wage negotiations and taxation, unless in using them for these purposes due regard is paid to the amount of profit which has been retained in the business for its maintenance.

On the other hand the alternatives to historical cost which have so far been suggested appear to have serious defects and their logical application would raise social and economic issues going far beyond the realm of accountancy. The Council is therefore unable to regard any of the suggestions so far made as being acceptable alternatives to the existing accounting principles based on historical cost.

*Recommendations*

Unless and until a practicable and generally acceptable alternative is available, the Council recommends that the accounting principles set out below should continue to be applied:

*From Recommendations on Accounting Principles, Institute of Chartered Accountants in England and Wales, London, May 30, 1952*

(*a*) Historical cost should continue to be the basis on which annual accounts should be prepared and, in consequence, the basis on which profits shown by such accounts are computed.

(*b*) Any amount set aside out of profits in recognition of the effects which changes in the purchasing power of money have had on the affairs of the business (including any amount to finance the increase in the cost of replacements, whether of fixed or current assets) should be treated as a transfer to reserve and not as a charge in arriving at profits. If such a transfer is shown in the profit and loss account as a deduction in arriving at the balance for the year, that balance should be described appropriately, since it is not the whole of the profits.

(*c*) In order to emphasise that as a matter of prudence the amount so set aside is, for the time being, regarded by directors as not available for distribution, it should normally be treated as a capital reserve.

(*d*) For balance sheet purposes fixed assets should not (except in special circumstances, such as where a subsidiary is acquired) be written up, especially in the absence of monetary stability.

# Fair Shares of Taxation

*It is one thing to decide that a method of accounting will work—another that it is socially desirable. Elimination of historic cost error lightens the burden of tax for some; but it must put a heavier load on others.*

TAXPAYERS whose accounts are not liable to " historic cost error " can be divided into two groups.

1. Those whose income has been free to rise with the tide of prices—business owners with little or no plant or stock, professional men, wage-earners and owners of durable non-business assets. This group has not suffered excessively from the inflation. Their tax bills have grown, sometimes faster than their incomes—but the tax paid is less than would be paid if the same real income were earned with the help of stocks or plant. In other words, the holding of stocks and plant is subject to an extra tax.

2. Persons who own or receive fixed money incomes (e.g. the rentiers). Any plan that would put bigger taxes on them must give us pause, seing the suffering already inflicted on them by inflation.

The owners of plant and stocks stand somewhere between these two classes. Their accounts blandly suggest kinship with those to whom inflation has been gentle.

From the standpoint of welfare, the case for reform is that the owner of stocks and plant will in many cases cease to carry out his function. When he appreciates the disabilities of holding such assets, he will, for instance, tend to prefer hand methods to mechanical handling because of the tax saving.

But finance may force him to do this willy-nilly. Private savings are declining; borrowing from institutions and the issue of new shares are becoming more difficult now; inducements to save are everywhere becoming scant.

*From Inflation and Accounting Profits, by W. T. Baxter, Westminster Bank Review, London, May,* 1952

# "Monopolistic" Methods are Natural Enough

by Sir Henry Clay

A fundamental change operating in the present century is the enormously increased importance of fixed capital equipment. Industry is no longer carried on mainly by small or moderate-sized firms, relying on the skill of the workpeople, and using an amount of capital per head which can be collected in a few months. If conditions can be established for the use of mechanical equipment—the "mass production" of popular discussion—and finance for the equipment can be secured, almost miraculous reductions in costs are possible. At varying rates, all industries in all countries are moving in the direction of more and more capital equipment per worker.

Given this trend, the resort to "monopolistic" or "restrictive" methods by industries faced with the difficulties of European industry after the First World War is natural enough. Unrestricted competition tends to erode margins and reduce the profits out of which alone the continuing need for more and better equipment can be met.

The more important fixed capital becomes, the greater the temptation to cut prices below the level at which total costs are covered, in order to keep the expensive plant running. Cartels arise most naturally in the most intensively capitalised industries; the plant is in existence, it must be kept going.

But plant wears out, seams are exhausted; and if prices have been persistently kept down by unrestricted competition to the bare cost of labour and materials, it will be impossible to keep up the plant, still less to replace it with technically superior equipment; the industry has been giving its capital away.

This danger is not serious in a stable, well-balanced economy. The economies of Europe after the First World War were neither stable nor well-balanced; and cartel arrangements were a response to the same need as led to the great development of selling organisation, particularly the growth of advertisement. Alike they were attempts to create some shelter from the force of competition pressing down prices below full cost; alike they were justified, in the eyes of their authors, as making possible the technical development and organisation of industry on which in the long run cheap production was thought to depend, and giving some assurance of a reliable demand on which mass production could be safely based. Both are to be regarded as part of the cost of mechanised manufacturing production. The alternative policy of relying between the Wars on bankruptcy was also costly without noticeably encouraging the re-equipment of industry.

This analysis will doubtless provoke the reply that it is based on the difficulties and practices of industry in depression; since the 'thirties, it will be said, we have learned how to

*From "The Campaign against Monopoly and Restrictive Practices," Lloyds Bank Review, London, April, 1952*

prevent depression. We have learned the secret of full employment, and for over a decade now the economic problem has been shortage of labour, not unemployment.

It is, however, a little early to assume that the problem of unemployment is solved—even in theory; it is too early to be sure that post-war prosperity is anything more than an exceptionally prolonged and widespread restocking movement following an exceptionally prolonged and widespread war.

**Government Controls**

Perhaps the loose application of the words "monopoly" and "restrictive" deceives the users of them. Industry has been trying to limit and control competition; but Government controls have had much greater success in eliminating it.

The result may well be to stifle initiative, deaden enterprise, and raise costs; but these effects arise from conditions peculiar to Government controls.

The first is their statutory basis. A monopoly or other restrictive condition imposed by a control has a legal basis and is enforced by law. It is quite inclusive and rules out any possibility of direct competition. There may be partial monopolies in private industry; but they are not protected by law, and their possessors are still subject to the spur of possible competition. Where, as with most war controls, participation in a trade or industry was restricted to the firms engaged in it at a given pre-war date, the statutory restriction was most deadening.

Again, controls include such conditions as allocation of materials, control of take-over prices, restriction of chargeable costs, control of prices, and often allocation of customers. Since they are instituted to deal with scarcity, the level of costs allowed is usually set high enough to cover the needs of the marginally inefficient producers. All, or almost all, incentive to and opportunity of improvement, economy and enterprise is excluded; the movement of prices is not allowed to exercise the effect it should have on costs; changes are effected by authority, by a political process which is usually clumsy and always in arrears of the need of change.

Controls, again, and other statutory monopolies have the resources of the State to draw on to cover their mistakes: if they cannot cover their costs by monopoly prices, they can draw on the Exchequer. The private "monopolist" has to draw on his own profits and reserves to cover his mistakes.

Thus controls do what the spontaneous efforts of private enterprise cannot do—exclude the *possibility* of competition and the influence of price changes in a market. Their purpose indeed is to prevent the movement of prices and to suspend the distributive function of markets. The price association or output agreement has to adapt its price and output policy to movements of supply and demand, movements of prices and all the other influences which operate in and through markets. There is a fundamental distinction between trades and prices which are taken by law out of the range of market control, and those which remain in and subject to a market.

**Collective Bargaining for Stability**

Collective bargaining is a *procedure;* it does not determine the *content* of the contract, which will

still depend on conditions of supply and demand. Under collective as under "atomistic" price settlement, the interest of the producer in keeping the price to the consumer down to the point at which his sales are at a maximum (over a period long enough to plan production) remains predominant; just as the interest of a trade union lies in keeping up wages only to a level that does not jeopardise employment. Atomistic competition may lower prices for the moment; it will raise them in the long run if it leads to wide and frequent fluctuations which deter the producer from investing in mechanised equipment.

What is wanted is the price that will cover average long-term costs without leading to the accumulation of unsold stocks or the maintenance of idle capacity; rational discussion by collective methods is as likely to discover and formulate this price as is unrestricted competition. As with the settlement of wage rates, the collective procedure is conducive to stability, which is lost if bargaining results in endless alterations to suit transient changes in the bargaining position of individuals; and stability is conducive to highly mechanised methods of production.

An alternative policy would require a faith (which is becoming rare) in the directing and disciplinary action of markets; though there are examples enough of cartels and commodity control schemes which broke down because they ignored the limits imposed by market conditions.

It would imply, too, a faith in the virtues of freedom of contract which is also becoming rare. As recently as 1930, the Greene Committee introduced its report on resale price maintenance by saying "that the ordinary right of freedom of contract ought not to be withdrawn without some compelling reason." It is surprising that the experience we have had since then of Government direction of industry and price control should have so weakened faith in spontaneous contractual arrangements.

## SEVENTY-THREE MILLION MOTOR VEHICLES

There are over 73,000,000 motor vehicles in the world, and 5,600,000 motor cycles. The number of cars has increased by half since 1940, and the number of commercial vehicles has doubled. The number of new registrations, however, has taken a downturn—in 1950 there were nearly six million, in 1951 less than five million.

The United States accounts for 70 per cent of the world's motors; Europe for 17 per cent. Asia and Africa, with more than half of the world's population, have together 3.3 per cent. The figures of registered vehicles as at the beginning of 1952 included these big six:—

| | | | |
|---|---|---|---|
| U.S.A. | 51,426,000 | France | 2,636,000 |
| U.K. | 3,398,000 | Australia | 1,353,000 |
| Canada | 2,809,000 | U.S.S.R. | 1,800,000 |

*The American Automobile, quoted in Petroleum Press Service, London, June, 1952*

*QUESTION OF THE MONTH—*

# How Much Recession?

THE superstitious will feel that misfortune is inevitable in this the thirteenth year since the outbreak of war. However, the more level-headed will have solid ground for misgiving in the knowledge that nearly thirteen years of inflation leave our economy very vulnerable to a long and painful retreat from trade boom to trade slump.

After a year of abnormal buying by all sections of the community it is possible to see that shortages were more talked about than real. Indeed the supply of goods to the home market was expanding and for some of these deliveries reached the peak towards the second half of 1951. In this period, however, prices were rising so rapidly that, if the increased figures for monetary sales are adjusted to retail prices, it becomes clear that towards the end of 1951 the volume of such sales had fallen to below the early 1950 figures.

Plainly in all the confusion of last year events stole a march upon us. The recession was making its impression without being fully recognised, and to be taken unawares certainly makes a bad beginning to a battle which may yet be waged long and fiercely.

*The Domestic Scene*

The extraordinary shopping behaviour of the public last year has a lot for which to answer. The earlier over-buying of certain consumer goods, notably textiles and clothing, the buyers' strike which so abruptly terminated this phase and the subsequent switch of purchasing power to durable consumer goods necessitating prolonged payments under hire-purchase contracts, were all important developments, the effects of which have still to work themselves out. Having put the home market in a jam, it remains to be seen whether a fickle public will be able and willing to repair some of the damage that has been done.

The present high level of wages would suggest sufficient purchasing power to support an active home trade. But the earlier excessive expenditure on "soft" consumer goods was followed by an astonishing amount of spending on durable goods—and this from a section of the community with quite limited means. The heavy mortgaging of incomes for instalment buying of motor-cars, motor and pedal cycles, television and radio sets, washing machines, vacuum cleaners, kitchen cooking equipment and so on will have a prolonged restrictive effect on other branches of household expenditure. The servicing of some of these costly purchases also makes unexpected calls upon the family income.

Taken altogether therefore, even if—as really seems unlikely—the earlier anticipatory purchases of consumer goods have been used up, it would be very difficult for the average household to superimpose on their present "luxury" expendi-

*From District Bank Review, Manchester, June, 1952*

ture a fresh outlay for additions to wardrobes and house furnishings.

The attendant difficulties have still to be resolved. Retailers and wholesalers will keep light stocks so long as any doubt remains about the future of purchase tax. Because of this and other conflicting forces which are at work, the position remains obscure. On the one hand it is claimed that the unloading of stocks has forced prices below the figure to which they are expected to return. Against this it is held that too little has been offered by way of bargains to induce the public to buy; consequently prices will have to be brought down further if stocks are to be reduced to more normal levels.

Will rearmament and the rising level of wage rates do this? The two together may well stimulate spending and the deflection of labour from the civilian sector of industry will put down production and help to dispose of surpluses.

It would be quite wrong to underestimate the potency of these combined factors in restoring purchasing power. On the other hand we should not lose sight of the fact that the recession is becoming less confined in its effect. To textiles, footwear and clothing may be added a number of other industries which are below normal production or have at least caught up with a backlog of deliveries. This is borne out by reports from the trading centres where production and turnover are declining and where shops and entertainments report that less money is about.

Ancillary industries to textiles are inevitably caught up in the recession and it is not without significance that the coal trade—the first to reflect changes in business tempo—reports a reduced offtake in " industrial smalls " and " slack."

*Repercussions from Abroad*

Repercussions from the import restrictions imposed by other countries have still to register their full effect on our exports. Many of these countries have been living beyond their means. Instead of increased export earnings being used for economic development they have been spent on imported textiles, motor cars and luxury consumer goods.

Remembering that the present trading difficulties are common to all nations, Britain must not assume that she alone faces serious problems. Her competitors have theirs too. Their greater peril lies not only in this situation but also, paradoxically enough, in their more self-supporting economies which may well lead to indifference about the need for corrective measures.

This may give us a much needed opportunity—an opportunity, moreover, which our past endeavours should enable us to turn to good account. Having during the war and post-war years given a lead to many countries in the matter of increased output, we ought to be better placed to solve the problem of high-cost production. If we can but muster enough determination and commonsense to press home our advantage the reward will more than compensate us for our efforts.

# What is Dollar Shortage?

*Europeans have every reason to thank the unknown inventor of the term "Dollar Shortage"*

A GLANCE at the extremely large literature dealing with the dollar shortage yields the following "definitions": —

1. The layman and even many economists seem to define Europe's dollar shortage as the fact that the European countries do not possess sufficient dollars to buy everything they would like from America. In an essay "Dollar Shortage for Ever?" in the *Economist* (June 28, 1948) it is said: "Nobody is able exactly to forecast the future. But it seems extremely likely that the dollar shortage will continue for a whole generation." And in a further article (July 3, 1948) dollar shortage is defined as the inability of Europeans "to obtain as many dollars as they would like to use."

If this is dollar shortage, most Americans also suffer from it. It could only disappear if all American goods ceased to have any cost. If this conception is adopted, the first sentence taken from the *Economist* is unnecessarily cautious, since it can be forecast with certainty that such a dollar shortage will exist for evermore.

2. A second interpretation links it up with a deficit in the balance of payments on current account. "The existence of a dollar shortage is confirmed by the fact that the balance of payments of the U.S. has shown a surplus on current account since 1919 (with the exception of two years) and also by the fact that the balance of trade has always been favourable after the large imports of capital in the 1870's" (C. P. Kindleberger).

A deficit on current account implies capital imports by the deficit country, or repatriation of capital previously exported, or grants from abroad. It is obviously nonsense to say that capital imports represent a shortage of the foreign currency in question. In accepting this definition, therefore, we should come to the following contradictions: —

A poorer country with a higher interest rate which imports capital from a richer country with a lower rate suffers from a shortage of the currency of the latter. Then shortages must always have existed, and could only disappear if all countries became equally wealthy.

We should also have to say that, e.g., Switzerland in some post-war years suffered from a dollar shortage because her balance on current account with the U.S. was adverse, whereas in fact the free dollar in Switzerland was dealt in at a discount against the Swiss franc—Switzerland in fact had a "harder" currency than the U.S.

Logically, also, we should say that Marshall Aid, having caused a deficit on current account for the receiving countries, has created the dollar shortage, whereas supposedly it was intended to overcome it. This second

*Translated and condensed from Europaeische Waehrungsprobleme* 1946-50, *by F. A. Lutz, Ordo, Jahrbuch fuer die Ordnung von Wirtschaft und Gesellschaft, Band* 4, *Düsseldorf und München,* 1951

definition, therefore, is also untenable.

3. A third definition is that a dollar shortage exists when a country regulates the balance of payments through import licensing and exchange control. " When a country introduces rationing of foreign exchange, we say that a potential deficit, a disequilibrium exists " (G. Haberler) and therefore, a shortage of foreign exchange exists.

This definition is also unusable. A controlled economy always has exchange control. Should we say, therefore, that it always suffers from a shortage of foreign currencies? But not a free economy, which does not use exchange control, but maintains equilibrium through fluctuating exchange rates? Only because the method is different?

A tariff influences the balance of payments likewise. In order to be consistent, should we not say that a country having a tariff also suffers from exchange shortage so that such a shortage would disappear only in the case of complete free trade? This definition must also be rejected.

4. Attempts can also be made to define dollar shortages on the basis of some sort of " wishful balance " (*Wunschbilanz*). " A dollar deficit in the programmed balance of a country can be defined as an excess of dollars over the amount of dollars derived from normal sources—an excess required or desirable for certain purposes (which appear important in the light of definite, accepted aims)" (F. Machlup).

This definition is dangerously akin to the first one—a country does not have so many dollars as it would like to have. In addition, this definition suffers from the disadvantage that it can perhaps be applied to controlled economies, but not to free economies.

5. " Dollar shortage exists when at a given rate of exchange demand exceeds supply " (H. S. Ellis) . . . It is difficult to define an exchange rate which leads to equilibrium satisfactorily—one cannot admit that a country suffers from a dollar shortage (which it has produced itself) because it prefers to reach equilibrium through exchange control instead of adjustment of exchange rates. One need only contemplate the consequences if Marshall Aid had been distributed in accordance with this criterion!

One may try to define dollar shortage as a permanent *tendency* of Europe to lose dollar reserves. Without American aid this tendency would force the European countries to have recourse to repeated devaluations or to permanent internal deflationary pressure or to progressive tightening of exchange control, in order to maintain equilibrium in the balance of payments. Such policies could only be avoided if the U.S. were permanently to make dollars available.

Such a tendency does not exist (as Prof. Lutz shows in another section of his essay). This is not an argument against Marshall Aid. Excellent economic and political reasons can be adduced for it. But a permanent " dollar shortage " in Europe is not one of them.

It should not be denied that the term " dollar shortage " is of political use. It has greatly contributed to starting American aid to Europe. Europeans have every reason to erect a monument of gratitude to the unknown inventor of the term.

*Footnote*: " Ordo," which is composed of several essays by Liberal economists on the Continent, is reviewed as a whole on a later page of this issue.

# Some Basic Facts of U.S. Imports

"The growing dependence of this country's industrial strength on imported raw materials and foreign trade make it imperative from the point of view of our own future security and well-being that we try to help other nations."

—*Nelson A. Rockefeller, President of the International Association for Economic and Social Development, May* 30, 1952.

SINCE pre-war years, total imports of raw materials by the United States have increased somewhat less than industrial output, but the absolute rise in these imports has been considerable. In 1950 the U.S. consumption of aluminium was nearly seven times as great as before the war, and that of copper, iron ore, rubber, timber and woodpulp from two to three times as great.

These increases in consumption entailed a substantial expansion in U.S. imports of a number of raw materials between 1937 and 1948. Moreover, in several key items, notably copper, iron ore, lead, wool and zinc, the U.S. was relatively much more dependent on foreign sources of supply than before the Second World War.

The enhanced importance of U.S. demand in post-war world commodity markets has resulted in a tendency for changes in U.S. demand to set the pace of events generally. (Also see "American Imports in the Long Run," Economic Digest, May, 1952, p. 199.)

| | Volume Index of total U.S. Imports (1948 = 100) | General Index of U.S. Industrial Production (1948 = 100) |
|---|---|---|
| 1937 | 93 | 59 |
| 1938 | 67 | 46 |
| 1946 | 92 | 89 |
| 1947 | 88 | 97 |
| 1948 | 100 | 100 |
| 1949 | 97 | 92 |
| 1950 | 119 | 104 |
| 1951 | 117 | 114 |

*Note*: The volume of imports in 1951 by quarters was: Jan.-Mar., 132; Apr.-June, 119; July-Sep., 107; Oct.-Dec., 111.

U.S. IMPORTS OF CERTAIN RAW MATERIALS

(000 metric tons)

| | 1937 | 1948 | 1950 | 1951 (a) |
|---|---|---|---|---|
| Aluminium | 20.3 | 140.5 | 222.0 | 148.0 |
| Bauxite | 515.6 | 2,528.8 | 2,516.4 | 2,875.3 |
| Chrome | 251.0 | 617.5 | 525.6 | 595.1 |
| Cobalt | 0.7 | 3.5 | 3.9 | 5.3 |
| Copper | 206.4 | 442.9 | 549.8 | 505.6 |
| Iron ore | 2,481.2 | 6,200.9 | 8,364.1 | 10,366.7 |
| Lead | 14.5 | 288.9 | 503.0 | 192.3 |
| Lumber (b) | 661.4 | 1,869.0 | 3,423.5 | 2,541.4 |
| Nickel | 49.4 | 97.0 | 88.2 | 86.5 |
| Rubber, natural | 601.1 | 747.2 | 817.2 | 780.3 |
| Tin | 89.7 | 88.3 | 113.5 | 62.3 |
| Woodpulp | 2,172.7 | 1,974.0 | 2,158.2 | 2,218.5 |
| Wool (clean basis) | 99.3 | 218.6 | 216.4 | 182.2 |
| Zinc | 37.7 | 251.7 | 368.4 | 327.7 |

(a) first nine months of 1951 at annual rate.

(b) in millions of board feet.

*From World Economic Report*, 1950-51, *and O.E.E.C. General Statistical Bulletin, May*, 1952

# Two Freedoms for Sterling

*For sterling now it is both freedoms or nothing—with snags everywhere*

1. *Freedom of Spending*

There is little prospect that residents in Britain will be allowed in the near future to spend abroad as much as they wish, to take cash freely out of the country, to export without having to repatriate the proceeds of their sales, and to remove their capital abroad. This is not to say that such freedom would not be highly desirable, but merely to admit that in prevailing circumstances it is an unattainable ideal.

If freedom for sterling is interpreted as removal of exchange control, it is quite clear that the freedom could apply only to non-resident sterling. Even then, a further distinction would almost certainly be necessary — between currently-acquired sterling and sterling derived from capital transactions. Admittedly, the two types merge all too easily into one another, and such distinctions present considerable difficulties.

2. *Freedom to Fluctuate*

From 1947 onwards, most public attention has been focused upon the pros and cons of a more or less freely fluctuating rate for sterling, as distinct from the fixed parity required by Bretton Woods.

In 1949, it was strongly argued (as it can always be argued) that there was no reliable means of calculating the "correct" rate for that time, and still less possibility of forecasting whether any rate then chosen would be equally appropriate after, say, six months. Many therefore urged that if the exchange were allowed to find its own level, aided or cushioned by some intervention of the Exchange Equalisation Account, the rate eventually established would be more realistic than one drawn out of a hat at the time.

* * *

Now in 1952 the two concepts of freedom are being wedded to each other. The question "Should sterling be freed?" is generally held to mean: Should it be freed from fixed parities as a means of achieving convertibility?

It may seem paradoxical that acceptance of the desirability and inevitability of making sterling convertible has become widespread just when the balance of payments has never been in worse shape, and the gold reserve seldom lower. But it was the very danger of the situation which led to the Commonwealth Finance Ministers' Conference in January, 1952, which aroused the conviction that, unless convertibility were restored in the near future, the sterling system itself might be wrecked beyond repair. A dash for both freedoms might actually be more likely if Britain's position deteriorates than if it shows signs of recovery. The sterling area cannot afford another 1949.

*Back-door Convertibility*

The efficiency of sterling control has been declining. There is really no way of stopping non-resident sterling from leaking out through

*From "Should Sterling be Freed?" The Banker, London, June, 1952*

loopholes. The recent extent of indirect switching operations in commodities leaves no doubt that nearly all non-resident (and apparently non-convertible) sterling can in fact be turned into dollars. This back-door convertibility deprives the sterling area of hard currency income that would accrue to it if sterling traders were exporting the goods direct to dollar markets instead of seeing them bought here by European merchants who then trans-ship them to these markets.

It is true that these operations therefore help to reduce the sterling area's deficit with the European Payments Union, and therefore save gold, but meanwhile we lose both dollars and trading relations. One of the main arguments in favour of restoring sterling convertibility is that it would revitalise Britain's merchanting business and the ancillary services that go with it.

*Pressures on Parities*

Part of the Bretton Woods system is a high degree of fixity in parities. The virtue of this principle has been much diminished by subsequent developments—the large devaluations of 1949, the defection to a free rate by so orthodox and highly respected a member as Canada, and the violence of swings of trade and prices.

But the reasons that prompt people to urge freedom of exchange rates are mixed. There are those who oppose Bretton Woods and the rigidities that go with it. There are those who fear that the rigidity of domesic costs is too great for any structure of fixed parities. And there are those who want at all costs to insulate the domestic economy from external shocks—hoping indeed for a much greater insulation than is possible for an economy such as Britain's; and to avoid those economic disciplines that are embarrassing politically, they would deliberately choose depreciation rather than disinflation.

In fact, a call for freedom of exchanges can be made to appear merely as a euphemism for suggesting that fixed parities do not afford enough scope for the development of inflationary policies—though, admittedly, a painful adjustment is demanded once an excessive inflation has been allowed to take place.

This, however, is precisely the kind of adjustment from which Britain (and other countries) has persistently shied away. The discipline that the economy has tried to evade is precisely the elementary discipline of living within its income, and providing at the same time a sufficient flow of resources for capital maintenance and development.

*Free Sterling—Weak Sterling?*

There are between thirty and forty countries outside the sterling area who will accept sterling even though they are unable to convert it into dollars; they do this because they know that each pound they receive represents a reasonably stable volume of purchasing power over about three-quarters of the goods and services in world trade. But to free exchange rates without convertibility would impair this willingness at least. Some of the subsidiary advantages of sterling's position as a world currency would also go by the board if the rates were freed—shipping freights and certain other international prices are still customarily quoted in sterling.

What, too, of the sterling balances that these foreign countries have accumulated?

*Sterling Balances*

At the end of 1951 the banks and official bodies in the non-sterling countries held a total of £1,018 million in sterling; British securities held by private residents cannot be estimated independently and are not included here. Of the total, the OEEC countries held £409 million, and other countries not in the dollar area or the Western Hemisphere held £514 million. Both these figures have remained remarkably stable in the last four years. The rate of the European balances if their holders were allowed convertibility is doubtful, and there is also concern about the difficulty of preventing leakages of British capital to the Continent in the same circumstances.

The balances held by members of the Sterling Area do not raise the same difficulties. The total held officially by these countries at the end of 1951 was £2,789 million (again, private holdings of securities are excluded).

These latter balances are already convertible—in the restricted sense that dollars can always be obtained to pay for imports which are duly licensed. The Sterling Area countries do not break this agreement because they know that otherwise they would cut themselves off from the free flow of capital from Britain. So the double dash for freedom by sterling would not change this system—in fact, freer rates might improve it, since they would add powerfully to the arguments for restraint in dollar expenditure.

But even with this argument in its favour, freer rates might still kill the Sterling Area club. Although most overseas Sterling Area countries would continue to gain more on the swings of unfettered capital inflow, than they would lose on the roundabouts of restricted dollar imports, yet at any one time some members will be net dollar earners and find the balance of advantages on the other side. If this position continued in a country, it might think seriously of ceasing to remit its dollar earnings to London in exchange for variable sterling.

*Effects on Point 4, I.M.F., E.P.U.*

The news of the first bold step towards convertibility would probably be welcomed in Washington, but as the free mechanism cranked up into action co-operation between the two countries might suffer. American contributions to Point Four programmes would be compromised by instability in the dollar-sterling rate. Britain would sever herself for a time at least from effective membership of the I.M.F.—a very possible source of credit assistance. And can Britain and the Sterling Area afford to run the risk of cutting themselves off from the World Bank?

The European Payments Union would also be compromised. The Union depends on stable rates in its monthly settlements; the agent for E.P.U. payments would have to be advised perhaps from day to day.

Lastly, the size of the gold and dollar reserves of Britain give one pause before the step of convertibility. It can be argued that the Equalisation Account, to control the free rate, would be able to let the rate sag before delivering counter-attacks—it would not have, as under fixed parities, to give what is virtually a one-way option to speculators in whichever direction speculation is flowing. A moveable rate might therefore call for a smaller reserve fund, because free rates, unlike fixed,

are not a positive invitation to speculate.

But though the establishment of a free rate means that speculators are not insured against losses by the one-way option, it also means that they are offered much greater chances of gains. A free rate therefore requires a smaller reserve fund only if the authorities are sure that sterling will not show a persistent tendency to weaken.

*Footnote*: A Resolution of the Council of the International Chamber of Commerce in Paris on May 14, 1952, says that the Council "is convinced that world-wide convertibility may be treated as an early practical objective." It points out that measures such as granting convertibility loans to countries with low reserves, strong monetary and fiscal policies, freeing of the private investment market and abolition of export subsidies are all part of a drive for convertibility. Freeing the rate of exchange "may be found unavoidable during the period of transition."

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*The National Bank of Egypt puts Britain, European Payments Union and Sterling in the dock*

# Verdict on Britain

*"Woodman, spare my tree"*

THE dilemma which British statesmen are facing since the war is a choice between either subsidies and isolation by means of controls, and integration in the world economy. The policy has been oscillating between these two extremes ever since the war ended. At this moment the ship is again definitely steering towards isolation and towards severing the economic ties with the outside world by means of controls. At the same time, the Chancellor of the Exchequer is cutting the food subsidies. It is difficult to see how these two measures can be reconciled, since they must mean less food from abroad and at the same time less food from home farms.

The direction may be changed again when an impasse is reached, but the obvious impression from the recent oscillations of policy is that the U.K. is unable to choose between the two alternatives, the experience being that both seem to lead nowhere. The problem is not difficult to solve in theory: the British standard of living is too high compared with the level of production, and must be lowered. It is the search for an alternative solution which causes the shift in policy.

One may doubt whether it is politically feasible to enforce the only real solution: the voter will prefer to live on the country's capital or on foreign grants and will not agree to any lowering of his living standards. Or as the February Review of Barclays Bank puts it: "The man on the street . . . readily agrees that 'we' must work harder and consume less, but 'we' seldom includes 'me' and almost every section of community is busy now in providing unanswerable reasons why the woodman must spare that section's particular tree."

# Verdict on E.P.U

*"Return of the Ice Age"*

THE great efforts made by the E.P.U. to melt at least some of the ice within Europe by isolating it from the rest of the economic world and by creating an area of free trade within, have ended in a fiasco. Cynics may say that it was the comparative freedom of exchanges introduced since the beginning of last year which upset the E.P.U., and they may add that since the transactions are being again strictly controlled according to plans, things will improve and the E.P.U. may continue to function. They will add that the only purpose for which the E.P.U. was created, was to squeeze some funds from the U.S.A. and some credits from countries like Belgium and Italy to finance U.K., France and some smaller countries.

Experience has proved once more that in any clearing arrangement it is the countries of comparatively free

*From Economic Bulletin, National Bank of Egypt, Cairo, March, 1952*

economy that will eventually run the surpluses, and the countries pursuing the policies of full employment and artificial price structures, that will turn into persistent debtors.

The mechanism of the E.P.U. being so devised that creditors will only be partially paid and debtors will settle their debts only partially, the creditor countries will be forced into inflation while the debtor countries will not be penalised by a 100 per cent deflation implied by a balance of payments deficit. Thus the idea probably was to bring about a nivellation of inflation levels upwards. Since both groups are in actual fact aiming at stabilising their economies, a situation has arisen where debtors throw overboard liberalisation measures undertaken while creditors begin to impose—export restrictions, a quite new weapon in the arsenal of modern international trade policy. Belgium and Portugal have introduced such restrictions and in Switzerland they have been applied wholesale since autumn last.

## Verdict on Sterling

*"Approaching Schacht's record"*

EXPERTS maintain that during the time when Dr. Schacht was still a follower of schachtian policies, he had succeeded in creating 29 different kinds of reichsmark, with different and autonomous rates of exchange against other currencies. We do not think that he succeeded in creating a record, nor do we intend to criticise his policy. Dr. Schacht has turned out to be the best critic of schachtian policy, and he had colleagues in South-East Europe who could boast, were they still alive, of having broken Schacht's records in multiple currency practices.

What interests us now is the fact that the pound sterling, until quite recently a standard of uniform value all over the world, is approaching Schachtian levels: it has been reported that 19-20 different varieties of sterling are being regularly quoted in New York, each one having its own rate independent from the others; while other authorities had already counted 28 such quotations a year ago. Obviously it is as big a task to get rid of this multiplicity and give sterling a uniform international value, as was the creation of these different species of currency.

It is well understood that Dr. Schacht created the multiplicity of reichsmarks intentionally in most cases while the sterling quotations, apart from the official one conforming to the Articles of Agreement of the I.M.F., are illegal in the United Kingdom. But this hardly changes the substance of the matter, i.e. that for the business world the sterling is a currency with multiple rates.

In the meantime developments have been such that people oversensitive to the slightest changes of economic winds have turned from the over-optimism of last spring to the gloomy pessimism of the autumn, as the dollar millions accumulated by London were being dissipated by economic weather-gods. Many people despair in the role of sterling as the dominant international currency, and wonder whether the goal that seemed so near a year ago has not disappeared behind the horizon for ever. The efforts of the new Chancellor in reverting to some classical remedies are interspersed with modern restrictionist practices and have not yet contributed much to the reduction in the number of international sterlings.

*COUNCIL OF EUROPE RECOMMENDS*

# Low Tariff Club for Europe

FROM a proposal by M. Ohlin (Sweden), the following Draft Recommendation was drawn up by the Secretariat:—

1. A policy of low tariffs should be based on three principles:

(a) The High Contracting Parties shall undertake not to retain as between one another any customs duties exceeding 35 per cent beyond a date to be fixed in the Convention and in any case not later than the date of completion of the successive stages of this plan.

(b) The High Contracting Parties shall undertake not to retain or impose on goods originating from other High Contracting Parties any import duties exceeding 5 per cent in respect of raw materials, 15 per cent in respect of semi-finished goods and 25 per cent in respect of finished goods and food products.

During the first year the undertaking laid down in this principle shall apply only to 70 per cent of the total import trade of each country in any of the categories specified. During the second year it shall be extended to 80 per cent, during the third 90 per cent.

The High Contracting Parties shall undertake to open negotiations for the purpose of fixing tariff ceilings for individual goods of particular importance in intra-European trade.

(c) The Convention shall be open to all countries and independent customs areas willing to accept the obligations therein laid down.

Realising, however, that the adoption of these three Principles would represent only a step towards the achievement of a European Customs Union:

2. The Assembly recommends the insertion, either in the Convention to be signed by the High Contracting Parties, or in the Final Act of the Conference at which such provisions were accepted, of a clause whereby the States would undertake within a reasonable period to convene a Conference for the purpose of examining a plan for the complete abolition of customs duties between the countries concerned.

3. The Assembly condemns the use of quantitative restrictions as a protective device and declares that they must never be such as to neutralise or reduce the effects of the lowering of duties envisaged in the above paragraphs.

4. The Assembly instructs the Secretariat-General to keep in touch with the leading official organisations concerned with these problems, and especially to study in co-operation with GATT the technical problems arising from the application of the above three Principles, with the final object of drawing up a more detailed plan for the implementation of a Low Tariff Club which should take account of the difficulties of the individual States.

*From Low Tariff Club, Secretariat General, Council of Europe, Strasbourg, 1952*

5. The Assembly instructs the Secretariat-General so far as possible to associate itself with the work of the special committee set up in Geneva in October, 1951, which has been given the task of studying suggestions submitted for the lowering of customs duties on a regional basis and of examining the plan drawn up by the French Minister, M. Pflimlin, and

6. The Assembly recommends that the Committee of Ministers acquaint Governments with the proposals herein contained and requests them to formulate suggestions either for an international conference or joint action within the framework of the General Agreement or for other appropriate means to ensure their implementation.

*Footnotes*: Amendments were voted regarding the computation of index numbers of average tariffs, the study of the effects of the Recommendation on employment in different countries, and the reporting of tariff changes. The Recommendation as amended was adopted by 90 votes to 4, with 6 abstentions.

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## CRYSTAL GAZING

From time to time public interest has been caught by the predictions of American industrialists or university research workers about an oncoming slump or boom. It must be sadly admitted that not so much publicity is subsequently given to the accuracy—or inaccuracy—of these predictions. Yet the American love of forecasting is catching. The study section of the Royal Statistical Society recently invited 64 economists to predict the movement during 1952 of five selected indicators for the British economy. Some economists refused in horror to have anything to do with the idea, but 70 per cent co-operated—though many only in the spirit of not spoiling the fun. Nine of those supplying answers were from universities, the remainder in industry and commerce.

As could be expected, individual forecasts differed widely in a way that makes averages look most uneasy. But, on the whole, the professors thought much the same as the business men. The crystal gazers saw on the average for 1952 a rise in industrial production over 1951 of about 1½ per cent, a drop in the volume of exports of about 1 per cent, a fall in personal consumption of a little less than 2 per cent and a rise in retail prices of 7 per cent. The level of unemployment was put at 2 per cent. These rather harmless looking figures hide, of course, some very disputable ones. The most pessimistic put unemployment at 3½ per cent and exports at only three-quarters of last year's volume. The most hopeful expectations for British exports were that they would rise by 4 per cent.

The methods behind these forecasts are hidden, but a fair amount of guesswork is admitted. If, however, science feels slighted in this survey, it has yet to offer any conclusive proof that in forecasting it can get any nearer to the mark—or any less further from it—than the well-informed guess. This is but a game with a large gambling element, and the players get most interest out of it in deciding eventually which of them is the best guesser.

*Economist, London, May 17, 1952*

# Banking in the Soviet Union—I

*How monetary supply and credit are fitted into the totally-planned economy*

Economic activity in the Soviet Union is based on an economic plan decreed by the Government, which provides for financial institutions that control the supply of money and credit and the purposes for which it may be used.

The State administration and the State enterprises carry out their financial transactions primarily through transfers from and to their bank accounts; individuals use almost exclusively cash, mainly in the form of banknotes. There is no market for loans to individuals or enterprises, and no sale of securities other than Government bonds. Likewise, except for limited sales of private homes, there is no real estate market. Thus, investment financing is conducted exclusively through the banking system.

The banks maintain their own offices and engage in the issue of notes, receiving deposits and making loans at interest like their non-communist counterparts. They aim at making a profit, part of which they retain in their capital accounts. Their activities, however, are dictated by the economic plan.

This over-all plan affects financial institutions through the directives included in the following component plans:

1. A plan for production, costs, employment and wages.
2. A plan for capital investment.
3. A State Budget.
4. A credit plan that establishes a credit ceiling for each industry in order to provide effective "control by the rouble" over its operations.
5. A "cash plan" to establish note circulation based on wage ceilings and the value of retail transactions.

The directives contain detailed instructions to each Ministry, to the State Bank and to each producing unit.

Soviet capital formation—including investment in plant equipment and inventories—is mainly financed through the Ministry of Finance, a Cabinet agency, which includes the following operating agencies:

1. The tax collection and disbursement agencies.
2. The State Bank, which is an autonomous unit within the system of the Ministry of Finance. All transactions other than wage payments, retail sales and construction transactions represent transfers from one State Bank deposit to another; wage payments and retail sales are the principal channels for the inflow and outflow of banknotes.
3. Four banks for long-term investment—the Industrial Bank, the Agricultural Bank, the Bank of Trade, and the Central Communal Bank. The last is a sort of holding company, controlling a number of local banks. Each bank disburses budgetary appropriations for construction in its respective field, and each makes loans to co-operatives and to State enterprises under the jurisdiction of local authorities.

*From article prepared by Edward Ames under the supervision of J. H. Furth, of the Central and East European Section of the Federal Reserve Board's Division of International Finance, Federal Reserve Bulletin, Washington, April 1952*

The Soviet authorities have established an elaborate system of direct as well as monetary controls in order to make sure that the funds of economic enterprises, as well as those of the banking system, are used only for the purposes of the plan.

*Construction Controls*: These are designed to prevent investment funds mostly from budget allocations, from being used to finance current production, and to make sure that Government-approved projects, and only those projects, are carried out. Projects of any size require the approval of a Cabinet committee. This is given only after the presentation of three sets of documents: 1, An economic justification of the project, 2, A set of blue-prints and specifications; 3, An estimate of the cost, broken down into quarterly figures. When approval has been given, a special account is set up in the appropriate bank (usually the Industrial Bank).

The investment banks are operated as integral parts of the Ministry of Finance. Their main function is the supervision of expenditures from the funds in their accounts. They may make local loans only to co-operatives, small State enterprises operated by local authorities, and to individuals to finance housing construction.

Soviet comments on long-term lending indicate fairly steady upwards pressure on loan ceilings; there is also some tendency for enterprises to use funds designed for construction projects to finance inventories, according to complaints by the Minister of Finance. In particular, enterprises often fail to transfer profits and depreciation funds to the investment banks in the planned amounts.

*Current Production Controls*: These are analogous to the foregoing. The State Bank is the chief instrument, and it attempts to minimise the liquidity of enterprises by the following regulations:—

1. Liquid funds must be kept in interest-bearing deposits in the State Bank.

2. The extension of credit to, or receiving credit from, other enterprises is forbidden, and normally enterprises cannot buy interest-bearing securities.

3. Depreciation allowances based on the original cost of fixed capital must be transferred in the form of funds to the relevant economic ministry.

4. Profits taxes must be paid monthly, and other taxes even more frequently, so as to prevent the accumulation of funds. Profits allocated to finance construction must be regularly transferred to special accounts in the investment banks.

5. The size and composition of the current assets of each enterprise are determined by the volume of planned production; inventories are fixed at a certain number of days' requirements.

6. Current assets considered to be in excess may have to be transferred to the Ministry of Finance.

The State Bank only grants credits for individual transactions which are earmarked. This prevents enterprises from concentrating borrowed funds in certain activities, and using their own funds to finance others.

An enterprise will require additional funds when it tries to expand plant or inventories in order to secure smoother running, when it is operated at a loss, or when its profits are insufficient to meet its tax obligations. The State Bank, before granting the credit, will inquire

whether the need for it arises from an improper diversion of resources from current output to unauthorised construction. Likewise, it must decide whether the need arises from the accumulation of unsold finished goods (which would indicate that the quality of the goods was too low, or that the sales department was inefficient), or from the accumulation of work in progress (which would indicate that the production department concerned was unable to maintain an even flow of materials through the plant). The Bank is supposed to insist on the correction of such faults as a prerequisite for the credit.

Liquidity is kept to a minimum in order that State Bank control over the activities of enterprises may be as effective as possible. According to available data for a few enterprises, liquid assets amounted in 1948 to 14 to 20 per cent of all current assets. The larger portion of all current assets consists of inventories. For United States manufacturing firms, at the end of 1948 liquid assets were about 38 per cent of current assets, including receivables.

In contrast, the importance of credit in financing current assets in Russia is similar to that in the United States, although the types of credit are different. About 40 per cent of all current assets of Soviet enterprises was financed by credit in 1947, and credit has become more important since then. In the United States, current liabilities of manufacturing firms were 37 per cent of current assets at the end of 1947. But Soviet enterprises have few short-term liabilities to others than banks. Moreover, they have no long-term liabilities since their outlays for capital construction and permanent working capital are mainly obtained from the State budget or from retained profits.

**RETURN TO PROFIT INCENTIVES IN RUSSIA**

At the outset of the new drive for profitability in 1949, separate bank accounts were opened for individual departments and even teams of workers, to make them profit conscious. It is clear, however, that this did not always have the results that were intended. A typical story is that of the woodworking shop of one factory, which switched from manufacturing prefabricated parts for houses to the more profitable occupation of sawing logs and making furniture for casual clients as soon as it was given a bank account of its own. Its account—and others like it—has now been liquidated. Soviet planners rely more on the stick than on the carrot to achieve their pre-determined ends.

But there is one sign that the importance of the carrot has revived. This is the campaign for "above plan" profits, which has been in full swing since 1948. Under the law not more than 2 to 10 per cent of planned profits may be retained by an enterprise for special bonuses and similar incentives. The post-war period, however, has ushered in a phase of "socialist emulation," designed to make factories exceed their target output. This "socialist emulation," combined with a drive for greater economy and still stricter budgetary control, ultimately aims at increasing profits beyond the "planned" margins. Between 25 and 75 per cent of these above-plan profits are allocated to a special "Manager's Account," from which bonuses are paid and the social services of the plant—clubs, sports grounds and workers' houses—are subsidised. At the discretion of the manager, however, up to 50 per cent of this account may be ploughed back into investment; in fact, the state plan sets each factory the task of financing some of its investment from its own means, in addition to contributing sales and profit taxes to the budget pool for development schemes.

*From The Banker, London, June, 1952*

*INDIVIDUALISM v. COLLECTIVISM*

# Historical Antagonists Reconciled

by Henry Smith
(Vice-Principal, Ruskin College, Oxford)

*In practice, the individualist economy of the West and the collectivist economy of Russia are not so different as they are painted*

The basic ideas behind the economic policies followed in the so-called "capitalist" and the so-called "collectivist" countries of the world are seemingly irreconcilable. But let us contrast practice in the two fields of influence.

In the individualist world we often look in vain for the dominance of the individual. We find instead the influence of the pressure group, whether it be on the one hand the monopoly producer, or on the other hand the trade union. The picture of individuals freely and individually choosing their pattern of life and determining the pattern of production by their free choice is further falsified by the enormous energy which is put into advertisement.

**Rabbit Culture**

The economic system of the West is indeed in danger of developing a sort of rabbit culture nurtured on advertisements, listening in the dark to the syndicated news items on television ranges.

The central figure of this world is still the entrepreneur, and upon his skill and courage the vigour of economic life depends. But it represents an unmerciful misuse of words to regard the consumer as dominant, or to say that price competition is the single point on which economic life turns. Moreover, the process of economic development throughout the world has been uneven; as capital has flowed out from the countries that got the first start in the economic race, political control has accompanied economic control over the backward races and in many cases there has been collective exploitation of them.

Consequently there has developed a very real series of group conflicts; in many parts of the individualist world we see attempts to eradicate these, but they remain basic to the economic structure as it exists nevertheless.

**Unemployment Bogy**

The individualist section of the world is now recognising, partly under the persuasion of its professional economists, that there is something like a permanent unemployment problem to overcome. If high unemployment were to be maintained in Great Britain or the U.S.A. for twenty years, there would be such a wholesale change in the social structure that many of the tenets of the individualist society would have to be modified—particularly the importance to be accorded to individual decisions about the investment of capital.

*From "Introduction to Economic Organisation," by Henry Smith, Sylvan Press, London, April, 1952, 12s. 6d.*

A new view of colonial development has been gaining ground, however, and it may be that in the forthcoming years (if it is not too late to win the confidence of backward peoples) outlets for investment in helping backward areas will, on an enormous scale, add to the possibilities of peaceful development of a free enterprise economy much in its present shape.

But here lurks a danger. A high level of employment may be maintained in a free enterprise economy—without lowering the rate of return to investment—if armament industries are developed on an adequate scale. It was this fatal alternative which provided the economic basis for the reconstruction of Nazi Germany. A large proportion of investment in the individualist world today is taking a form which may prove fatal to civilisation—moreover it is tantamount to sacrificing the ideas of liberalism in one part of the economy.

**Theorists, Think Again**

In general, comparing the practice with the ideology of the individualist economy, one cannot but consider that the ideas need to be greatly modified. They need to be modified by at least part of the historical viewpoint of the collectivists, before they will stand comparison with the realities of the world.

Professor Knight says in his "Ethics of Competition": "The conditions for individual liberty, created by the geographical and scientific discoveries made from the later Middle Ages to the nineteenth century, were inherently temporary. Economic Liberalism in the negative sense of extreme individual laissez-faire is impossible. Since wealth can be used to get more wealth, these consequences follow:

"(a) with gross inequality in the distribution of wealth, all ethical defences of freedom lose their validity;

"(b) the automatic system of market competition breaks down, for competition requires a large number of units, every one of negligible size."

**Collectivism in Practice**

Let us now turn to the practice of the collectivist world. It is the economically backward countries rather than — as Marx originally anticipated — the more developed countries which have wholeheartedly accepted this point of view. Marx's mistake was due to two things which have happened in the advanced countries:

1. Production per head has increased so considerably that many members of the working class have had a rising standard of living. The class struggle has slackened, but as the balance of economic power between social classes altered, a certain redistribution of income has been made through the state.

2. For many years the advanced countries were in a position to treat their workers fairly well because of the exploitation of colonial peoples. The result is that the "revolutionary proletariat" in Western Europe may well be exemplified by the typical British trade union leader in his suburban villa.

The coincidence of a peasants' revolt in backward Russia (which Western Europe had survived three centuries earlier) with the revolt of the urban proletariat owing to the mismanagement of a war, brought about the expression of collectivism in Russia. Because of this, the col-

lectivist economists have been constrained to follow a course alien to their original concepts.

Instead of being able to build up collectivism against a background of adequate resources, it has been necessary under a dictatorship of the proletariat to go through all the stringencies of an industrial revolution, and all the hardships inseparable from the rapid accumulation of capital. Consequently, the dictatorship has become that of a group over the proletariat.

**Inferiority Complex**

This has distorted the machinery of government, has determined the type of person in authority, and has turned the collectivist countries into a separate world intent on its immediate objectives, worried about its economic inferiority and concerned about its military security. So worried indeed, that it has become impervious to contacts with the outside world, rigid in its thinking, and can no longer contribute to the thinking of those who wish to apply variants of the collectivist solution to the problems of the more advanced countries.

If one regards the confiict between the theory and practice of the individualist sector and the collectivist sector, the element of caricature seems to be as great in one as in the other.

**Reconciliation**

Is there any possibility of reconciliation?

Much of the conflict between collectivism and individualism is now meaningless in terms of internal policy in most countries. The question whether aggregations of capital equipment in this or that industry could best be made to conform in their operation to the public interest under state or private ownership is an empirical question. It is not a question of whether the public interest shall prevail or not. Correct interpretation of public interest is the test. Many people in the collectivist countries must be coming to realise that state ownership of productive capital does not automatically free the worker from exploitation.

Once it has been established that the temper in which great industrial organisations are administered is of greater importance than their "ownership," then the prospect of some great synthesis of ideas makes its appearance. The feat of will and imagination which the age demands is the formulation of an ethic of property which can stand as the basis for the capitalisation of the more backward areas of the world.

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*Footnote*: "Introduction to Economic Organisation," from which this extract is condensed, is an admirable description of economic history and the form of economic institutions in the light of that history. The growth of the existing economic world is traced with care, with clarity and with humour from the Middle Ages onwards. The mechanism of entrepreneurs' decisions, the supply of capital, the supply of labour and the structure of international trade are described on a broad canvas, leading up to the extract just given. The book is readable even by the veriest tyro, and not least of its virtues is that it is only 182 pages long—a feat of compression which is not at all obvious, however, to the reader.

A.B.C.

# Colombo Plan's Modest Beginnings

*Full benefits cannot be felt until 1957 and after*

THE FIRST YEAR of the Colombo Plan ended on June 30, 1952, and it is clear that the Plan has got off to a good start. Moreover, the countries propose a substantial quickening of development next year.

States' Expenditure on Development (£ million)

| | Actual 1950-1 | Estimate 1951-2 | Estimate 1952-3 |
|---|---|---|---|
| India ... | 196 | 256 | 307 |
| Pakistan ... | — | 116 | 120 |
| Ceylon ... | 17 | 38 | 44 |
| Malaya and N. Borneo | 13 | 18 | 24 |

When the results achieved are considered in terms of land reclaimed or irrigated, power stations built, roads constructed, and other visible and tangible assets, they may not be spectacular. This is because large-scale projects take several years before they are completed and begin to play their powerful rôle in the economy. The full benefits will not be felt until 1957 and after.

Nevertheless, there are already some visible signs of progress, partly because the Plan included some projects already under way. Here are the salient features of the planning so far:—

*India*: Work on power and irrigation schemes is well under way. When they are completed, some of them will make possible two crops per year instead of one, as well as raising yields.

The Nangal barrage is in an advanced stage; the Bokaro thermal station and the Tungabhadra irrigation project will be completed in 1953, and the latter will command an area of 2 million acres of which 700,000 will be irrigated annually; the Kakrapara project, designed to bring nearly 600,000 acres under irrigation, should be completed by 1953-54; the Kans grass project for the reclamation of weed infested lands is progressing satisfactorily; the Lower Bhawani project, which will irrigate 207,000 acres, is half completed and will be finished in 1953-54. Encouraging progress has also been made on the Hirakud Project. The Mayurakshi irrigation and hydro-electric scheme in West Bengal has been started. In the field of industry the Sindri Fertilizer project is already in production and the Chittaranjan Locomotive Works is nearing completion.

*Pakistan*: The main work on the Thal irrigation scheme, which will irrigate $1\frac{1}{2}$ million acres, has been completed, and the Lower Sind Barrage Scheme is in an advanced stage with its first phase scheduled for completion by the end of 1953. Good progress is being made with a number of hydro-electric power projects, and a number of new textile and other factories will be in production in 1952-53.

*Ceylon*: The chief aim is increased food production, especially

*From The Colombo Plan, First Annual Report, H.M. Stationery Office, London, May 1952, Cmd. 8529. 2s. 6d.*

of rice and fish, and a number of programmes are under way. Work on the main dam of the Gal Oya Scheme is almost completed. The first stage of the hydro-electric scheme, which provides a generating capacity of 25,000 kW., is finished, and work on two further stages, each providing an additional 25,000kW., has commenced. The Colombo Port Development Scheme has already begun. In the industrial field existing plants are being modernised and a wide variety of new factories is being established.

*Malaya*: The task of resettling some 400,000 squatters in new villages, provided with schools and proper drainage and sanitation, is nearing completion. Work has begun on the Singapore Power Station. In North Borneo rehabilitation is proceeding and in Sarawak good progress is being made with agricultural and other schemes. All four territories have built new schools and expanded their medical facilities.

*Viet Nam*: While continuing to carry out the basic development set forth in her Six-Year Programme as and when security and other conditions permit, Viet Nam has found it necessary to set up an emergency programme, principally devoted to social welfare projects, to meet the present exceptional conditions.

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*Importance of Rubber*

The importance of the prices obtained for the principal exports of the area is well illustrated by rubber. Malaya and British Borneo produce over 700,000 tons of rubber a year and Indonesia (not at present in the Plan) about the same amount; Ceylon produces over 100,000 tons a year and Thailand (not at present in the Plan) about as much. At present prices, the total value of this output of rubber, which is mainly produced by small-holders, is about £500 million a year. A change in price of only 10 per cent means £50 million a year. Besides making a great difference to the millions of Asians for whom rubber is the chief source of livelihood, such a change in price appreciably hastens or retards, as the case may be, the progress of development in these countries.

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*Footnote*: Advances in technology are tending to cheapen synthetic rubber all the time.

If this were the whole of the story the outlook for the Malayan producers would be bleak indeed. In fact, however, there are three circumstances from which they can draw some comfort. In the first place it has now been admitted in America that the costing of synthetic rubber production is not economic. A report to the House of Representatives by the Committee on Armed Services has pointed out that unless the Government-owned firms are run on commercial lines—that is to say, unless proper depreciation is charged and adequate profits earned—the price at which the plants can ultimately be sold will be seriously affected.

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*...... ALSO WORTH READING ......*
*The Colombo Plan, with Special Reference to India and Pakistan, economia Internazionale, Genoa, February 1952 (In English), by Vera Anstey.*

*DIGEST BOOK REVIEW*

# India's Planning Under Fire

*An integrated policy embracing 400 million people in 700,000 villages is a herculean task. Small wonder that India's Planning Commission has its critics*

We make no apology for returning *Economic Digest* to the problems and opinions of Indian economists. For the picture to be drawn of India since partition (and of Pakistan also) is of a country that conceived itself as being a blank sheet in 1947, on which peasant and politician, economist and industrialist, soldier and sociologist, could write a new chapter in the history of mankind. A brave new world indeed. One that called for bravery, and the bravery has certainly been forthcoming.

Not many thinking Indians have boggled at the gigantic task: industrialists came forward with the Bombay Plan, which rather tended to spend more money than was comfortable; private individuals threw their own plans into the pool, concentrating on various aspects of the poverty-stricken Indian scene; the professors in the universities, remembering their Socialist economics of the thirties, drew up schemes and counter-schemes. The result has been chaos—but the inevitable chaos that results from the first, fine flush of enthusiasm, without which nothing of any importance is done in this fusty-dusty world.

Braver than most, therefore, were the members of the Government Planning Commission, who weighed in in 1951 with a modest affair of some 1,493 crores of rupees, to be spent primarily on irrigation, transport and social services. This Five-Year (later called a Six-Year) Plan is in draft form only, and for this reason as well as for others it was hailed at first as a realistic one. If politics be the art of the possible, then this was a political plan. States can build railways, can erect dams, can purchase bulk foodstuffs in the open market to ease shortages elsewhere. *Festina lente*, said this Commission.

Even had they not given out their plan as a draft, and invited criticism, the criticism would have been forthcoming; for the vocal economic authorities in the country are, with few exceptions, "sold" on the planning idea. Very rarely is the question raised whether an overall Plan is the answer; more usually the question is whether the Six-Year Plan can be called a Plan at all. The result has been that what is offered as criticism of the Plan turns rapidly into a completely new Plan. From the politically and fiscally possible, the critics dive into the uncharted seas of the socially desirable. They sometimes reach strange shores for professing democrats.

## *Spirit of Planning*

"Economic Analysis of the Draft Plan," by T. N. Ramaswamy, of the

*"Economic Analysis of the Draft Plan", by T. N. Ramaswamy, published in Allahabad by the Indian Press, Ltd., 1952, 5 Rupees*

Economics Department of Banaras Hindu University, is a book written by one who finds planning not only feasible but desirable. We must bear this in mind.

The task of planning in India, he says, "is not at all easy to perform. The economic system of our country has never been a simple structure. The problem is in fact that of economic stagnation in the lives of nearly four hundred million people, who are shut up in a social and cultural system inherited from time immemorial. The economic system is the result of the interplay of forces of two distinct types of civilisation which have waged a relentless struggle for conquest for the past two centuries. A new outlook capable of creating new civilisation patterns has to be forged; a perfect synthesis of development between the old and the new has to be reached.

"We need a spirit of planning which would pervade the entire country and change the outlook of millions of people towards their everyday life problems, so that planning becomes a passion with them, and will infect the entire country."

This may sound dangerous doctrine; but the author points out that when political emancipation came to India, it did not stand for any vital change in the minds of most of the Indians, particular the subsistence farmers which form the major part of the population. The mere building of Damodar Schemes and new railways will not instruct *them* how the community as a whole are to participate in the Plan.

The author is as good as his word when he makes this clarion call to "planning-consciousness"; his book is full of well-written sentences (at times over-written) which call for "gigantic schemes calculated to smash through social and cultural inhibitions," for all or nothing in planning, for freeing economic desirabilities from the shackles of political possibilities.

*Trammels of Politics*

"Any attempt to imprison economic planning in our country within the parlour of the Constitution will only end in dire frustration for the masses, in which democratic institutions and traditions have little chances of survival." This, it is true, is the dilemma. The Constitution of 1948 laid down quite clearly that private enterprise was to play the greater part in the Indian economy, that freedom for business-men as well as for voters was to be the rule. The Planning Commission, following this lead, has therefore been extremely careful to concentrate on those kinds of project which the private industrialists of India were unable to fulfil. But as the author of this book rightly points out, no part of an economy is divorceable from any other part; the building of dams entails the planning of cement production, the planning of machinery output, the planning of the use of the irrigation water and the power. Once the circle of the economy is cut, it is no longer a circle and make take on many forms which are, to the planner, the wrong ones.

Lest it should be thought at this point that the author is a pure totalitarian, let us quote from the chapter he devotes to price policy, which infuses a sense of realism into his analysis. "It is not easy," he says, "to formulate a price-policy which is powerful enough to bring about a desired allocation of resources, unless the control of the authorities on

the working of the price-mechanism is comprehensive. Any price-policy which attempts to regulate the pattern of allocation of resources will have to be very cautiously framed with a view to maintaining the delicate balances in the working of the sectional markets and economic incentives."

What, then, are the particular difficulties in the Indian economy? The chief is that in the subsistence economy no price-change of a reasonable size has any effect whatsoever on the incentive to grow more crops. The land is already subdivided into plots too small to support a family; to assume that the small Indian farmer is "the dictator of his crop-schedules, and that he would always grow crops which would offer him the largest price-margin" is one which would lead only to disappointment and blunder.

*Slough of Subsistence*

"Attempts must be made to iron out population pressures on land resources: this can be done only through diversification of the occupational system of the country, and by shattering the hold of subsistence economy on the rural population." This will not be done by increasing investment in tractor stations and river development. The land should be reconstituted into larger plots, and industrialisation encouraged to relieve the rural areas from the crushing weight of numbers.

The Six-Year Plan makes no claim to do more than assure the maintenance of a standard of living commensurable with that of 1939. This, says that author, is not good enough. It does not fire the imagination, and must therefore fail even to attain its limited object.

Yet, at the same time, the Six-Year Plan is too big, taking as it does the whole of the Indian economy into its purview. "The area of economic conquest is so vast in our country, that no plan can be effective unless it has a regional approach to it. It is only along lines of regional reconstruction that we can pretend to solve the problems of economic evolution in our country."

The author concludes his book with a description of the work of the Mogul Emperors—"They built like giants and finished like jewellers. Those who attempt to plan for India will have to do exactly the same."

India is a country whose problems are of such magnitude and complexity, that they sometimes give a mere European pause to think whether his own problems are worth worrying about. A book like this is salutary not only in the explicit statements it contains; it also brings into better perspective the work of John Company and the British Raj in years past. These two solved their problems from different standpoints, and with varying success. The new free India must see the same problems through entirely different eyes—and come weal, come woe, those with the courage to tackle the job, without fear, are not lacking.

A. B. C.

*BRITISH CO-OPERATORS' REPORT*

# Co-ops Running Short of Capital

*The Societies, says the Co-operative Union, must go all out to attract shareholders and lenders, to keep stocks fluid and to keep down development based on "unrealistic optimism"*

*There are 1,141 Societies (mostly retail) who are members of the Co-operative Union. Estimated membership is now 10,825,000 people. In the summer of 1951, about 27% of the population of the U.K. and Northern Ireland was registered with these Societies for their grocery rations. Out of the 13-14 million households in the U.K., 20% were registered with them for coal. They sold nearly 13% of the foodstuffs, nearly 15% of the coal, 9½% of the footwear and 6½% of the dry goods and chemists' goods. About one penny in every nine that cross retail counters crosses those of the Co-ops.*

THE first successful co-operative venture in Britain was begun in 1844. The history of the co-op movement over these 108 years has been steady progress—at times it seemed that the movement thrived on depression elsewhere.

Now, it seems, a crisis may be round the corner. Dividends have been dropping since 1942. Here are three items which the Margate Congress has had before it.

1. *Doubts About Nationalisation*

In 1948 the Congress called for a policy statement in order that all sections of the working class movement might work in harmony. It was then realised that nationalisation must affect some parts of the co-operative movement; to increase the difficulty, it was not then known (and still is not known) what precise plan of social development may eventually be adopted by the Labour Party.

It was agreed that co-operators must use their utmost power to preserve the right of maintaining and developing their own resources under their own democratic control. Inevitably this has meant that they have been on the defensive against threats of nationalisation. The social character of co-operation is well established, and co-operators should not be expected to sacrifice co-operative enterprise in favour of untried and unsatisfactory ideas of public ownership.

The Union's National Policy Committee takes the view that the movement must be prepared to meet nationalisation proposals with counter proposals of its own.

2. *Fussage About Plussage*

No one should be surprised if the end of co-operative wage increases was not in sight. A number of societies would find it difficult to meet further increases. The picture of the country's economy as a whole is a serious one, unrelieved by any cheerful prospect, except hard work which is not cheerful either.

A subject which always attracts warm controversy in co-operative circles is that of "plussage," i.e., wage rates paid by some societies over the nationally agreed scale.

*From Report of the Central Board to the Co-operative Congress, Margate, June 1952*

When increases are negotiated nationally, some societies feel themselves constrained to "absorb" part or all of the plussage in the increase. The trade unions have argued that the societies in this case are reducing the benefit of the general advance granted in compensation for the increased cost of living. In other words, once a plussage, always a plussage.

On the point of the societies' ability to pay the advance whilst maintaining the excess rates, no agreement has been reached. In the controversy there emerged some interesting views of the societies' financial and trading affairs, put forward by the employees — views which would startle some of the movement's financial experts. It is hardly necessary to add that there could be no agreement between the parties even if a bevy of accountants and auditors had accompanied the societies' representatives.

There have been turbulent and at times acrimonious discussions on the question of wages generally, and the Conciliation Board has had to be used.

### 3. *Finding the Finance*

From 1941 to 1945 the share capital of retail societies increased heavily. In 1946 the rate of increase slowed, and in 1947 the increase was trifling. Decreases began: 1948 £3½ million, 1949 £6 million, 1950 over £6 million, and the trend continues. Some societies have been drawing on reserves to keep dividends up when earnings are dropping.

The total shares outstanding among all the societies are now £231,709,000; loans total £64,231,000. Among the reserve and insurance funds, the Co-operative Insurance Society has a balance of £105,425,000, but this substantial figure is held to meet liabilities to policy-holders. Meanwhile it is to be invested in first-class mortgages, and retail societies are given preferential treatment. But retail societies cannot assume that their requirements for liquid capital will be met automatically from this source.

The Wholesale banks have over £93 million in balances, but accommodation is available only on bankers' terms, which are inevitably higher than rates paid on members' shares and loans in retail societies. There is therefore not a bottomless purse in the movement.

The problem of finance among the societies is twofold: not only is capital accumulation declining, but the cost of maintaining stocks, carrying debts, and building new and maintaining old capital equipment is rising.

The reasons for the capital decline are (1) the higher cost of living in a state of inflation militates against popular saving, and (2) social provision by the state has become a disincentive. The co-operative movement is also affected by competition from the Trustee Savings Banks, because of the greater convenience offered to savers, the publicity which sustains them, and the fact that Trustee balances are partly ignored in the assessment of need for national assistance (the first £375 is excluded).

Some societies still impose purchasing and other qualifications on intending investors; these restrictions are now considered to be inadvisable and should be removed.

The recommendations of the Financial Policy Committee are as follows:

1. All societies should use every means to increase capital resources; they should publicise and provide better facilities (e.g., keeping open on selected evenings or Saturday afternoons).

2. More societies should accept loans and small savings accounts.

3. Consideration should be given to raising long term loans at higher rates of interest.

4. Stock control should be tightened, and stocks losing value should be liquidated at once. Minimum rates of stock turn per annum should be—grocery 12 times, pharmacy 4 times, drapery, clothing and footwear 3 times, and furniture and hardware $2\frac{1}{2}$ times.

5. All surplus funds should be placed in the hands of the Wholesale Societies.

6. Extended credit should not be granted.

7. Reserves should be regarded as the last bulwark of financial security and should not be used for distribution as dividend.

8. The greatest caution should be exercised in planning developments; societies must be warned against unrealistic optimism in this field.

9. Owing to the fact that shareholders are able to withdraw holdings at short notice, no development should be contemplated which would result in less than half of the Share, Loan and Savings Funds being maintained in readily realisable investments.

10. After meeting all necessary revenue expenditure, and providing for all contingencies indicated, dividends must be allowed to find their own level.

## *OTHER POINTS FROM THE REPORT*

Since General Elections might in future occur rather more frequently in Britain than in the past, the effect on the finances of the Co-operative Party would be a heavy drain; the Party desires to issue a General Election Fund Appeal to all societies. The Co-operative Union, however, feels that the times are not opportune for the appeal.

The hire-purchase trading of the co-operative movement has increased considerably since the war. Some £7 million worth of trade was done in 1950.

Some societies are complaining about unfair competition from works conteens—unfair, since retailers paying Trade Union wages, rates, taxes and other charges are faced with subsidised competition from canteens with few overhead charges.

Co-operative farming is carried on by 72 retail societies as well as by the two wholesale societies. On the whole the farms are profitable, and the value of production has doubled since 1938. The less economic farms are the small ones, usually over-capitalised.

### REPLACING THE CHEQUE

More businesses are thinking about using the Traders' Credit System for making payments; this would mean that instead of making out cheques, a list of payments required is given to the banker and credits are made to the creditor's accounts direct. The cost is smaller and banking charges these days are becoming large enough to be a source of possible economies.

—*Financial Times, London, June* 11, 1952.

*THE VOICE OF ITALY—I*

# Costs are Consuming Capital

COSTS in Italy are in the great majority of cases unduly high, so that not only do we export at a loss but we run the risk of not even recovering production costs with the proceeds of our sales on the home market.

Before setting aside this assertion as importunate, with the gesture of one who knows better, we would ask the reader of these notes to look into the figures. And should he be a manufacturer, let him reckon what he would need to erect a plant like that he is now running; let him add to the current costs of his production the proper quota for amortisation and for a fair remuneration on the capital which should be at the disposal of the business.

Or if he is a farmer he need only reckon what remains to him of the proceeds of the sale of his products when he has deducted current expenses—*i.e.* the cost of seed, fertilisers, anticriptogamic sprays, and so forth, and the wages of his labour force, inclusive of the charges for social insurances, and taking into account the value of his own services. When he has done so let him compare what remains to him today with what he used to secure before the war, and he will see the extent to which the income from his property has been reduced.

The truth is that monetary devaluation, by garbling the accounts and above all by muddling peoples' brains—and not only in the case of the man in the street but no less in the case of business men and politicians—continues to wreak havoc long after it has taken place.

And just as we see those responsible for national finance consider with relative serenity the persistence of a deficit of some hundreds of milliards of lire, only because the service of the debt now weighs much less heavily on the budget than it did twelve years ago, so we see Company Directors accused of earning excessive profits and of retaining in the business an excessive share of those obtained, whereas, in the great majority of cases, they do not succeed—and often they do not even think—of filling the gaps in business assets that have been produced by long years in which payments to sinking funds have been reduced to trifling amounts. Nor do they set aside year by year sums sufficient to cover the physical and economic wear and tear of their plants, reckoned at replacement prices. Yet with all this, people express surprise at the chronic penury and excessive cost of money from which Italy suffers in spite of the very generous injections of foreign capital received in ten years.

The time has come when it is necessary to realise a fact which is as simple as it is pernicious, and that fact is that for years we have been going the wrong way. We have deceived ourselves into believing that we have been increasing our national capital and our productive equipment, while if on the one hand we have added to it, on the other we have been wasting it on a standard of living higher than that which the flow of real income earned by utilising our natural resources and our labour force would allow of.

We are not speaking of the larger consumption that American aid has so far made possible; we are speaking of a much more serious phenomenon, one that most people ignore or even deny. We are speaking of the unproductive consumption of a large part if not of all the savings that we laboriously believe we are setting aside day by day. Instead of being used for increasing useful public investments, these savings are consumed by the Government and by other public bodies who use them to cover the deficits of their budgets due to excessive and quite unproductive expenditure.

But these savings are also consumed by private enterprises when they sell their output at prices such that when once the current expenses have been met and a moderate remuneration assigned to the capital investment, the margin that remains is quite insufficient for facing the wear and tear of the plant by paying adequate amounts into the sinking fund.

But, we may be asked, do you mean to say that the manufacturer sells his goods at a price lower than that allowed of by market conditions? And should he be doing so, do you think it would be advisable to raise prices with all the consequences that would inevitably follow, not only from the social standpoint, but also from the strictly economic one, at a time when demand is so scarce that it is difficult to find a market for current production?

We will answer at once that it is far from our intention to give such advice, which would have results quite other than those desired and would moreover be impracticable, as, even under abnormal market conditions such as those which have so long characterised these post-war years, nothing justifies the belief that it would have been or would be possible to obtain higher prices than those that have been had. The fact is that our situation is a quite paradoxical one. In our case at least the remarks hold good today that were acutely made two years ago by the General Commissioner for the Plan of Remodernisation and Re-equipment of the French Union when he wrote that the sale prices were too low in relation to costs, and too high in relation to competition.

*From Italian Economic Survey, Rome, March-April, 1952.*

*THE VOICE OF ITALY—II*

# Population Pressure and Unemployment

According to the census of November 4, 1951, the population of Italy numbers 47 millions. The density per square kilometre has risen to 156 (compared with densities of 19.2 in the U.S.A., 73 in France, 205 in the United Kingdom). The working population is about 20 millions, of whom some 2 millions are at present unemployed. The density of population must be placed alongside the fact that Italy's soil is poor generally and lacks industrial raw materials, and large parts of the

country are made unsuitable for agriculture on account of the long mountain chains.

The real problem is how to absorb the stagnant mass of two million workers registered in the employment offices. Unfortunately this figure tends to increase for a variety of reasons. In the first place Italy has lost some prosperous parts of her territory and her African colonies, where large numbers of Italians were already employed and still larger numbers would have settled in the near future. Italy has thus had to find room for masses of refugees from those parts of the Venezia Giulia now under the jurisdiction of Yugoslavia, and from Libya, Ethiopia, etc.

In the second place, during the war large numbers of Italian workers who would normally have found employment abroad could no longer emigrate, and even after the war many immigration countries are not able or willing now to receive Italian immigrants, save in tiny driblets. A third cause is the devastation wrought by the war which has reduced the amount of capital available for increased production.

A subsidiary cause has been the expansion of female employment during the war, many women having taken the place of mobilized male workers, and at the end of the conflict it was not possible to withdraw from the employment market a considerable number of these women, among other reasons because the decline of real wages made it impossible for many families to carry on save with an increased number of wage-earners.

If Italy is to help herself she has need of more capital. According to recent investigations the average cost for the employment of an individual worker amounts in fixed and circulating capital to 1,700,000 lire in agriculture, to 4,000,000 in industry, and to 1,000,000 in trade and services.

This means an average of 2,000,000 lire for each newly-employed worker, or 4,000 billions in all to provide work for the two million unemployed. This is far more than Italy can afford at present, and the problem can only be solved by a long-term plan spreading over many years. The maximum sum which Italy can now use is about 800 billions per annum, for investments sufficient to absorb 400,000 unemployed.

As every year some 200,000 new workers enter the lists to seek employment, there remains a margin for the employment of 200,000 more workers, provided that the new investments are really utilized for creating new employment and not for merely increasing the earnings of the men already at work.

*From Italian Affairs, Rome, May,* 1952.

**BLACK MARKET YEARBOOK, 1951**

Mr. Franz Pick, of New York, has sent to the offices of Economic Digest two very interesting publications with which he is associated. The first is his regular series of World Currency Reports, which deal with currency trends the world over, including the free market rates ruling up to the date of publication. Free market rates (i.e. premium rates) on commodities and gold are also described with a wealth of statistical evidence. The second publication is his "Black Market Yearbook, 1951" which claims to be the only index of black market prices ever published. "Currency cancer," says an introduction, "has infected every country's monetary system. Governments are unable to suppress black markets. The Yearbook is the best guide through the labyrinth of depreciating currencies."

# SNAPSHOTS

Since Korea, wool shipments have provided 10 per cent of the national income of **AUSTRALIA**, and almost 65 per cent of her total export income.

**MEXICO** is living on tourists. During 1951 half a million foreigners visiting the country spent 1,800 million pesos, and this was more than enough to cover her trading deficit of 1,400 million pesos.

Measures taken in **PORTUGAL** to relieve the inflation due to her persistent surplus with the E.P.U. include the now familiar retention by the Government of part of the proceeds from exports. If her surplus should rise above 72.5 EPUnits, exporters will have to deposit 100 per cent of proceeds with the central bank.

On March 31, 1952, **JAPAN** held the equivalent of $1,060 million in foreign currency—$644 million in dollars, $279 million in sterling (£100 million), the balance in other currencies. Her trade deficit was $254 million, but invisibles brought in $818 million. The present sterling area allotment of exchange is double that of 1951. About 20 per cent of her imports will be foodstuffs.

The World Bank has granted **PAKISTAN** a $27 million loan in dollars and French francs for railway improvement. Interest is at 4⅝ per cent for 15 years; first repayment begins in 1954.

Recent trade treaties concluded by **ITALY** were for Russian wheat, coal, crude oil, manganese and timber; for Czech china and glass; for East German foodstuffs, lumber, potash, lenses, machinery and chemicals; and for French coal, iron ore, kaolin, steel scrap and cocoa beans.

Exporters in **GERMANY** are being allowed to use part of foreign exchange proceeds to use how they like within some 50 categories of raw materials and essentials from the dollar area. When they earn dollars or Swiss francs, they may keep 40 per cent; this may be transferred to importers, but must be used within three months.

German and Japanese exports to **LATIN AMERICA** have risen greatly in value and volume in the last three years. In 1947 Germany exported only $400,000 worth to this region; in 1951 she sold $350 million worth. In 1949 Japan sold only $6 million in the region; in 1951 she sold $81 million worth. Germany offers motor vehicles, chemicals, machine tools and pharmaceuticals. Japan offers agricultural and textile machinery, sewing machines, lorries, bicycles and microscopes. American sources claim that American trade is not yet affected, but that Britain is losing ground fast.

Influential opinion in economic and political circles are urging that inflation is the only way out for **JAPAN**. The "Dodge Line" (a policy put forward at the insistence of Detroit banker Joseph Dodge in 1948) is being attacked as too deflationary for present circumstances.

Restrictions on credit for hire-purchase are being suspended in **CANADA**. They are also suspended in U.S.A. now, since inflationary pressures in the consumers' goods market have lessened. The controls were first imposed during 1950.

**SOUTHERN RHODESIA** is turning slightly protectionist. Imports of clothing, textiles and a number of non-essential goods are now subject to import duties which, according to her Minister of Finance, are not only for revenue purposes.

**INDIA** has been successful in her drive for disinflation. Money supply dropped by 10 crores of rupees from October, 1951, to April, 1952, despite a slight rise in the note circulation; small savings rose steadily; securities of all kinds registered falls in price; all the earmarks of the turn of the monetary tide. Coupled with them, however, is the fall in raw material prices, necessitating the reduction and even abolition of export taxes on cotton, wool, jute, groundnuts and seeds. Wholesale prices in March-April this year dived to 1949 levels.

*Sources include Reserve Bank of India Bulletin, Bombay; The Banker, London; Bank of London and South America; National City Bank of New York; Manhattan Bank; Standard Bank of South Africa.*

# New Books Reviewed

*Stock Control and Storekeeping (Production Management Series 5), British Institute of Management, London, March* 1952, 5*s*.

This booklet is based on a publication by the British Standards Institution which appeared in 1944, and is written primarily for the manager of the smaller firm, that is, one employing up to 400 people. Some pages are devoted to stocktaking, although the purpose of the book is to outline a system of stock control which should make periodical stocktaking unnecessary.

Investment in inventories (raw materials, work in progress, and stocks of finished goods) is frequently one of the largest items on the balance sheet of manufacturing firms, often exceeding the value of the plant and buildings. It is therefore vitally important to the firm, particularly the small firm, that stocks should be kept as low as possible, releasing the largest amount of capital for active use. In times of shortages, an orthodox system of stock control involving maximum and minimum levels is difficult to operate, since buying is on an opportunist basis, and overstocking is a great temptation. Even where the supply problem is easier, firms who depend on chance jobbing instead of flowline production have to keep stock levels considerably above what is considered as normal elsewhere. For the latter the problem of stock control is most acute.

We recommend this booklet as a clear explanation of a system of storekeeping obviously tempered with experience.

*Ordo, Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft. Begründet von Walter Eucken und Franz Böhm. Vierter Band. Verlag Helmut Küpper, Düsseldorf,* 1951. DM29.80

It is not surprising that the lessons of the failure of the planning experiments both under the Nazis and immediately after the war have stimulated the growth of a school of German economists which is strongly in favour of a free market of economy, but which realises that such an economy can function properly only within an appropriate social framework, an appropriate "order." Hence the title of this yearbook. It was largely founded on the initiative of the late Professor Eucken, whose line of approach is familiar to readers of *Economic Digest*. Otherwise (apart from the works of Professor Roepke) not much is known of this "neo-liberal" school and there could be no better introduction to it than this book for those who can cope with German texts.

The main contribution to the present issue is a critical study by Professor Böhm of workers' co-determination (Mitbestimmung). Professor Böhm concludes that co-determination, if successful and not intensifying class warfare, can only lead to a new struggle between producers (employers and workers acting together) and producers. Whilst co-determination may appear a purely German problem, this essay does not only give an insight into a peculiar problem of recent German policy, but it also discusses its political and social aspects.

Other contributions deal with more general problems. K. F. Maier discusses proposals for price stabilisation; Professor Roepke expounds his thesis of the incompatibility of socialism and international order; Professor F. A. Lutz (Princeton University) deals critically with the prevailing concepts of Europe's currency problems; and Professor F. W. Meyer discusses the question of stable or fluctuating exchange rates. Professor A. Rüstow's essay entitled a "Critique of Technical Progress" touches a basic problem of modern society. In addition to the main contributions, Ordo contains a section of shorter reviews.

This short note fulfils its purpose if it draws attention to a publication representing a school of thought which deserves serious consideration at the present time, when thinking on economic problems is so confused. (An excerpt from the essay by F. A. Lutz appears elsewhere in this issue of *Economic Digest*).

*West and East of Tito, by Harry Hodgkinson, Gollancz, London,* 12s. 6d.

Is Russia bent on war, or bound to a policy which must result in war? The question is paramount and critical, but answers returned to it are usually no more than guesses. There should be a welcome therefore for a book such as this highly-skilled study of a critical feature of the Stalinist set-up and of the mind of Stalin himself. The critical feature under scrutiny is, as the title indicates, Tito's defiance of Moscow's imperialist design. To this study the author brings all the skill of a professional expert on the Balkans, wide knowledge of the relevant facts, and shrewd political and economic judgment. The study of the mind of Stalin calls for something more—the deductive virtuosity of a Sherlock Holmes. The danger is obvious: that the author will find himself reading into circumstances more than is really there. But Mr. Hodgkinson carries conviction. Although he writes with gusto, he clearly has a proper sense of responsibility, and one never feels that his judgment is suspended in the excitement of the chase. He believes that Stalin has decided that his particular form of dictatorship must and can live in tolerable comfort in an otherwise non-Stalinist world, and that there will be no large-scale war provoked by Russia unless it happens through miscalculation.

## For Reference

*Items in this Section are kept for one year at the offices of Economic Digest. They are available to members of the Economic Research Council and readers by arrangement. Please write, citing reference number of items given in brackets, to 18 South Street, London, W.1, or telephone GROsvenor 4581.*

CANADA: The Budget for 1952. Commercial Letter. Canadian Bank of Commerce, Toronto, April, 1952 (116). A reminder of the fallibility of fiscal prediction.

PRODUCTIVITY COUNCIL: Something Has Been Done. Mimeographed report by the Anglo-American Productivity Council, London, April, 1952 (117). A summary of concrete results of the series of reports.

GOLD: World Gold Production in 1951. International Financial Statistics, I.M.F., Washington, April, 1952 (118). Tables, charts and comment.

NORWAY: General Survey of the Norwegian Economy. Bank of Norway Bulletin, Oslo, May, 1952 (119) (In English).

U.S.A.: Financial, Industrial and Commercial Statistics, U.S.A. Federal Reserve Bulletin, Washington, May, 1952 (120). The most complete array of statistics of a mammoth economy.

SOUTH AFRICA: Changing Conditions in the South African Market. Board of Trade Journal, London, May 31, 1952 (121). Full employment, no balance of payments difficulties—this is the picture of Britain's second-best customer.

ITALY: Monetary and Banking Policy in Italy after the Outbreak of the Korean War. Bancaria, Rome, Supplement to No. 11, 1951 (122) (In English). " Indiscriminate use of the sliding scale applied to wages mark the beginning of the definite collapse of the currency."

Agrarian Reform in Italy. Current Affairs, Rome, May, 1952 (123). Also under the same reference number is an article on the " Southern Italy Fund " for reconstruction in this poverty-stricken area.

LOCAL AUTHORITIES: Welfare Services Statistics, 1950-51. Institute of Municipal Treasurers and Accountants, and the Society of County Treasurers, February, 1952 (124). An analysis by Boroughs and Counties of expenditure on residential homes, clothing and maintenance, temporary accommodation and special welfare services for the blind, etc. For all authorities, the rate-borne expenditure per 1,000 inhabitants was £219 6s. for these services.

Estimated Rate and Grant Borne Expenditure per Head in the County Councils, based on 1952-53 Estimates. Society of County Treasurers, London, April, 1952 (125). Average figures for all Counties are: Education, £7 2s. 3d. per head; Health, 19s. 3d.; Police, £1 3s. 0d.; Roads and Bridges, £1 7s. 0d. Total expenditure —£13 2s. 8d. per head for England and Wales; £12 19s. 2d. per head for England, £15 7s. 8d. per head for Wales.

FINLAND: Finland's Foreign Trade in 1951. Bank of Finland Bulletin, Helsinki, May, 1952 (126). Britain leads as both supplier and customer.

PRODUCTIVITY: The limitations of Productivity Analysis, by A. R. Smith, B.Com. Incorporated Statistician. Association of Incorporated Statisticians, London, June, 1952 (127). A heavy underlining of the warnings given in Mr. Moos's article on page 281 of this issue.

COMMONWEALTH TRADE: Trade of the British Commonwealth in 1951. Board of Trade Journal, London, May 24, 1952 (128). Admirable summary with clear tables.

## Also Worth Reading

The French Franc, a Cautionary Tale, by Paul Bareau, *National Provincial Bank Review, London, May* 1952. History of the franc from 1914 to the 1949 devaluation, and a cautionary tale indeed. " In terms of gold, the franc is now worth one two-hundredth part of its 1914 value. . . . The coin itself is now made of an alloy so light that it can rest on water—a floating currency in every sense of the term."

The Significance of Pension Funds, by SIR HENRY CLAY, *Progress, the Unilever Magazine, London, Spring,* 1952.

The Oil Industry in Alberta, by S. M. BLAIR, *Royal Society of Arts Journal, London, August* 8, 1952. This paper was given to the R.S.A. on April 24, 1952, and will appear in the Society's Journal this summer. It is written by a professional engineer associated with Companies who are promoting the new oil industry, not only from the technical but also the economic aspect.

World Population by 2000 A.D., by HUMPHREY HUMPHREYS, *The Fortnightly Review, London, May* 1952. A short history of mankind and the " balance of food " problem.

W. Europe: Coal Imports and Fuel Oil Prices, *Petroleum Press Service, London, June* 1952. Fuel oil is cheaper than U.S. coal and saves dollars; at present fuel oil is regarded as a by-product of refineries, so if Europe's fuel situation is to be mended a change of emphasis must be made. It is true that this must raise the price of fuel oil, but there is still plenty of " room " between oil and coal prices.

Annual Review, 1952 Edition, *Mining Journal, London, May* 1952. This 148-page review is a must for all interested in the mining industry. It surveys the industry as a whole, and then in fact-packed articles takes each mineral and each producing country in turn. Apart from its immediate interest, it can be regarded also as a reference book.

World Production, Prices and Trade, 1870-1960, by W. A. LEWIS, *Manchester School, Manchester, May* 1952. A compendious article on world trade, with not-too-serious predictions for 1960.

A Note on the Theory of the Inflationary Process, by R. M. GOODWIN, *Economia Internazionale, Genoa, February* 1952 (In English). Beginning with a very clear exposition of price-cost matrices, the author (Department of Applied Mathematics at Cambridge) proceeds to show that it is necessary to combine theories both of competitive and non-competitive behaviour to arrive at a satisfactory theory of inflation.

Changes in Agricultural Production, 1949-1951, *National Farmers' Union Information Service, March-April* 1952. A further decline in the numbers of dairy cattle in Britain, and in the western counties and Wales a downward trend generally in agriculture, are forecast in this booklet, which contains detailed figures and maps of animal populations and crop densities.

Economic Policy, Rearmament and the Balance of Payments, by R. C. TRESS, *London and Cambridge Economic Bulletin, in The Times Review of Industry, London, June,* 1952. " If the Sterling gold and dollar reserves run out, and the Government cannot support the pound by selling investments or raising loans abroad, the pound will find its own level, the quantity of imports will fall and their costs rise, and the labour market will be struck by the opposing forces of a rising cost of living and increasing unemployment." Also appearing in this, the latest of the quarterly Bulletins, are the usually authoritative articles on " Balance of Payments of the Oversea Sterling Countries " by J. O. N. PERKINS, " International Finance " by A. C. L. DAY, and " Home Finance " by F. W. PAISH.

Safety of Welded Ships, *The Times Review of Industry, London, June,* 1952. One in five of ships built by welding plates instead of riveting them have failed structurally—some broke completely in two. This article explains why, and also tells what steps are being taken to prevent this appalling loss.

Sterling Area off Balance, *British Banking Survey, in Economist, London, June* 7, 1952. " There must be some uneasiness in Whitehall that Britain's habit of relapsing into a balance of payments crisis whenever inflation damps down in America may mean that this country always tends to run down its stocks at the bottom of the market and start purchasing heavily at the top of it—but it must be some comfort to be able to adopt a balance of payments formula that does not demand similar upside-down economics in relation to purchase of sterling area raw materials."

# DUNLOP RUBBER

## SUBSTANTIAL INCREASE IN TURNOVER

The fifty-third annual general meeting of the Dunlop Rubber Company, Limited, was held on June 9 in London.

Sir Clive Baillieu, K.B.E., C.M.G. (the chairman) in the course of his speech, said: One of the most important features of our Dunlop Group results for the past year is the substantial increase in turnover which resulted in total sales for the year of £284 million. This represents a very large volume of sales, in fact the highest we have ever reached, and I think it right at the outset to emphasise that this directly causes or affects several other important features of the Group's position.

### TOTAL CAPITAL EMPLOYED

The total capital employed by the Group from all sources in order to achieve the turnover was £121 million as at the close of the year—an increase of over £21 million on the preceding year's figure. That is a very large amount of capital to put to use in a group trading in so many countries as we do. The increase is due not only to the continued world inflation in 1951 but also, and to a larger extent, to the increased quantities of goods required from the Group. It should be noted especially that the ratio of turnover to capital employed rose from 1.97 to 1 in 1950 to 2.35 to 1 in 1951.

The major item in the capital employed is inventories, and at the 31st December last we had over £61 million invested in inventories in the Group as compared with £40 million the year before.

You may be assured that the volume and composition of our inventories is constantly under review by the Management and that our policy will continually be to keep them only at levels essential for the smooth operation of a world-wide business.

### EVER-INCREASING BURDEN OF TAXATION

With the ever-increasing burden of taxation, which in 1951 absorbed 66 per cent of the Group's profit what appears to be a reasonable profit margin before taxation becomes almost dangerously low when taxation has been provided, the percentage in 1951 being 2.2 per cent or 5¼d. in each £1 of sales. I suggest to those who consider industrial profits are too high that the ratio of profit to sales and not the amount of profit is the real measure. In the case of Dunlop the large increase in turnover and the low ratio of net profit is the best measure of our service to the community.

I have referred to the fact that taxation has absorbed 66 per cent of the Group's 1951 profit whereas in 1948 the rate was only 54 per cent. Part of this increase is due to the fact that our tax legislation makes no allowance for the serious inflationary position which has been developing during recent years and in particular in 1951. During last year the average wholesale and retail price index stood at 258 compared with 194 in 1948, and 100 in 1938. Accordingly, depreciation on Fixed Assets charged on the basis of original cost is inadequate and must be supplemented by a further charge. This the Directors have provided both for the year 1951 and for previous years as explained fully in their report, but this additional charge is not recognised in computing taxable profits.

The Report was adopted.

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